

This document reflects the result of analyses, discussions and review by UCOP staff and has been reviewed with PwC.

**University of California  
Governmental Accounting Standards Board (GASB) Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*.**

**Issues Resolution Memo No. 58-1**

**Evaluation of GASB Statement No. 58 as it Relates to the UC Reporting Entities**

*Issued: December 3, 2010*

**Background**

GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to re-measure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms (i.e., approves) a new payment plan.

For accounts payable, notes, debentures and bonds, and related interest payable, this GASB Statement No. 58 requires governments to base re-measurement on the new payment plan. Reductions in future interest payments would result in lower interest costs reported in future periods. Reductions to principal or to accrued interest payable may result in gains reported at the time of the reduction. If the new payment plan does not indicate whether it reduces principal payments or future interest payments that have not been accrued, the debt should be re-measured at the present value of the future payments using the original discount rate, and a gain should be reported at the time of the reduction.

For leases, pollution remediation liabilities, and liabilities for pension and other postemployment benefit plans, GASB Statement No. 58 requires re-measurement based on existing authoritative guidance. However, if a benefit plan is rejected in bankruptcy and becomes general unsecured debt, GASB Statement No. 58 requires the existing liability to be removed and a new approved payment plan to be recognized as a judgment, with a gain or loss recognized for the difference.

For governments that are not expected to emerge from bankruptcy as going concerns, GASB Statement No. 58 requires re-measurement of assets to a value that represents the amount expected to be received.

GASB Statement No. 58 requires classification of gains or losses resulting from re-measurement of liabilities and assets as an extraordinary item.

Governments that have filed for bankruptcy are required to disclose information regarding, among other things, the pertinent conditions and events giving rise to the petition for bankruptcy, the expected gain, and the effects upon services.

### **Define Issues**

The University must determine whether GASB Statements No. 58 is applicable for any of the University's financial reporting entities.

### **Authoritative Guidance and Approach**

#### ***For All of the University's Financial Reporting Entities***

No further authoritative guidance or analysis was performed.

### **Implementation**

Since neither the University nor any of its reporting entities have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, GASB Statement No. 58 is not applicable.

### **Next Steps—Required Actions**

None.