



State of Louisiana
Division of Administration
Office of Statewide Reporting and Accounting Policy

August 12, 2008

OSRAP MEMORANDUM 09-06

TO: Fiscal Officers
All State Entities

FROM: Afranie Adomako, CPA
Director

SUBJECT: Implementation of GASB Statement No. 48

In September 2006, the Governmental Accounting Standards Board (GASB) issued GASB Statement 48 – *Sales and Pledges of Receivables and Future Revenues and Intra-entity Transfers of Assets and Future Revenues*. This statement establishes accounting and financial reporting standards for (1) transactions that are related to the sales of receivables and future revenues; intra-entity transfers of assets and future revenues; amortization of deferred revenues and charges; guidance for recognizing residual interest and recourse provision arising from these transactions; and (2) note disclosure for future revenues that have been pledged or sold. GASB 48 is effective for periods beginning after December 15, 2006, or for our current fiscal year (FY 2008).

The first requirement of the statement is for an entity to determine whether a transaction is a sale or collateralized borrowing based on an entity's continuing involvement of the asset transferred and other factors. Paragraphs 6-9 of GASB Statement 48 identifies the criteria for what constitutes an entity's continuing involvement with the receivables or future revenues transferred and whether the receivables or future revenues is isolated from the entity. If an entity meets all the criteria stated in paragraphs 6-9, the transaction should be reported as a sale. If an entity does not meet all the criteria stated in paragraphs 6-9, the transaction should be reported as collateralized borrowing.

If the receivable is reported as a sale, the transferor entity removes the receivable at its carrying value and reports a gain or loss for the difference of the proceeds and the receivable carrying value. If the reporting is for governmental funds, the difference is reported as revenue. If the future revenue is reported as a sale, the transferor entity reports the proceeds as deferred revenue or revenue in both the government-wide and fund financial statements. Deferred revenue is required if the future revenue sold has not met the revenue recognition criteria (for example, tobacco settlement revenues).

If the receivable or future revenue is a collateralized borrowing, it is considered for financial statements purposes as pledged rather than sold. The proceeds received by the pledging entity are reported as a liability in its statements of net assets and as another financing source in its governmental funds statements of revenues, expenditures, and changes in fund balance, if the governmental funds received the proceeds. The pledged receivable is recognized as assets in the balance sheet or statement of net assets of the pledging entity. The pledged revenue is reported as revenue in accordance with the appropriate recognition and measurement criteria.

The second requirement of the statement is for the entity to include in the notes to the financial statements information about the future revenues that have been pledged or sold. The note requirement for **pledged revenues** is for each year the secured debt remains outstanding and should disclose the following information:

1. Identification of the specific revenue pledged and the approximate amount of the pledge which would be equal to the remaining principal and interest requirement of the secured debt
2. Identification of, and general purpose for, the debt secured by the pledged revenue
3. The term of the commitment – the period during which the revenue will not be available for other purposes
4. The relationship of the pledged amount to the total for that specific revenue, if estimable – that is the proportion of the specific revenue stream that has been pledged
5. A comparison of the pledged revenues recognized during the period to the principal and interest requirements for the debt directly or indirectly collateralized by those revenues

The note requirement for **sold revenues** is for the year of the sale only and should disclose the following information:

1. Identification of the specific revenue sold, including the approximate amount of the pledge, and the significant assumptions used in determining the approximate amount
2. The period to which the sale applies
3. The relationship of the sold amount to the total for that specific revenue, if estimable – that is the proportion of the specific revenue stream that has been sold
4. A comparison of the proceeds of the sale and the present value of the future revenues sold including the significant assumptions used in determining the present value

The information regarding the note disclosure for pledged or sold revenues is in the AFR packets under the notes to the financial reports (statements) that OSRAP sent out in June. If you have any questions concerning the information presented in this memorandum, please call Katherine Porche at 225-219-4442 or me at 225-342-0708.