



State of Louisiana
DIVISION OF ADMINISTRATION

OFFICE OF STATEWIDE REPORTING AND ACCOUNTING POLICY

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COMMISSIONER OF ADMINISTRATION

June 9, 2006

OSRAP MEMORANDUM 06-28

TO: All CAFR Entities

FROM: Afranie Adomako, CPA
Director

SUBJECT: Implementation of Governmental Accounting Standards Board Statement
47 – Accounting for Termination Benefits (GASB 47)

In June of 2005, the Governmental Accounting Standards Board issued GASB 47. This statement established accounting and financial reporting standards for termination benefits. As used in the statement, termination benefits are benefits other than salaries and wages, which are provided by employers to employees as an inducement to hasten the termination of services as a result of a voluntary early termination (voluntary termination benefit) initiated by employees or as a consequence of involuntary early termination of services (involuntary termination benefits) initiated by employers. Involuntary termination benefits include benefits such as severance pay. Voluntary termination benefits include benefits such as enhanced early retirement options resulting from an approved early retirement plan.

Other terminations benefits may include:

- Early retirement incentives such as cash payments, enhancement to defined benefit formula, health care coverage when none would otherwise be provided
- Severance benefits, payments for early release from employment contracts
- Compensated absences, including payment for unused leave balances
- Continued access to healthcare, including COBRA
- Career counseling
- Outplacement services

The requirements of this statement are effective in two parts. For termination benefits provided through an existing defined other post employment benefits (OPEB) plan, the requirements of the statement should be implemented simultaneously with the requirements of GASB 45. For all other termination benefits, the statement is effective for financial statement periods beginning after June 15, 2005. It applies to financial statements prepared on both the modified and full accrual basis of accounting.

In accordance with the statement, OSRAP will be implementing GASB 47 in fiscal year ending June 30, 2006 for all termination benefits except those provided through an existing OPEB plan. The termination benefits provided through an existing OPEB plan will be implemented in fiscal year 2008, simultaneously with GASB 45.

GASB 47 requires that financial statements prepared on the modified accrual basis of accounting recognize liabilities and expenditures to the extent liabilities are expected to be liquidated with expendable available financial resources. In financial statements prepared on the accrual basis of accounting, a liability and expense for voluntary termination benefits should be recognized when the employee accepts the offer and the amount can be estimated. A liability and expense should be recognized for involuntary termination benefits when a plan has been approved.

When an employee receives termination benefits, the payments should be recorded separately from other salaries and wages. The payments should be reported in two new and separate categories, Voluntary Employee Termination Benefits, and Involuntary Employee Termination Benefits. This information should include the total number of involuntary and voluntary terminations and as well as their associated costs. Payroll description codes should clearly distinguish these amounts and they should be available in detail and summary formats. We are currently working with the staff from the Office of State Uniform Payroll to ensure that this information will be available for the June 30, 2006 fiscal year end. If your reporting entity does not use the Office of State Uniform Payroll, you should contact your payroll office to inform them of the requirements of GASB 47.

An additional note to the financial statements will be added in fiscal year 2006 as a result of GASB 47. In accordance with GASB 47, the notes to the financial statements should disclose a description of the termination benefit arrangement, including the benefits provided, the number of employees affected, and the period of time over which the benefits are expected to be provided. The notes to the financial statements should also disclose the cost of the termination benefits if the information is not identifiable from information displayed on the face of the financial statements. If the costs of the termination benefits are not reported because the amounts cannot be estimated, a note to that effect must be included in the statements.

The requirements of GASB 47 should be applied to any previous commitments of termination benefits that remain unpaid at the effective date of the statements in the first year of implementation.

The scope of GASB 47 does not include unemployment compensation. The accounting requirements for unemployment compensation are established in NCGA statement 4, Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences. The scope of GASB 47 also does not include post employment benefits. The accounting requirements for post employment benefits

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(pensions and OPEB) are established in GASB 27, Accounting for Pensions by State and Local Governmental Employers, and GASB 45, Accounting and Financial Reporting by Employers for Post Employment Benefits other than Pensions.

Should you have any questions, or need additional information please contact Tonia Jackson at 225-342-1089 or Yuchi Fong at 225-342-0709. Some of the more frequently asked questions and answers will be posted to OSRAP's website.