



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

April 4, 2014

**OSRAP MEMORANDUM 14-23**

TO: Fiscal Officers  
All State Entities

FROM: Afranie Adomako, CPA  
Director

SUBJECT: Implementation of GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*

As a result of current economic conditions, investors in obligations are seeking additional credit enhancements and assurances, including financial guarantees, to minimize the possibility of borrower default. A government has extended a financial guarantee when it agrees to indemnify a creditor in the event the borrower does not fulfill its requirements under the obligation. Generally, financial guarantees may be entered into by governments as a part of their mission to assist other governments, nongovernmental entities, or individuals. The Governmental Accounting Standards Board (GASB) noted that because financial guarantees that are nonexchange in nature generally do not result in the guarantor government receiving consideration, there is no initial accounting transaction that would result in ongoing analysis and reporting of these transactions. As a result, the GASB concluded that providing accounting and reporting guidance for nonexchange financial guarantees was a higher priority than providing accounting guidance relative to all financial guarantees.

Based on these considerations, the GASB issued Statement No. 70 (GASB 70), *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, in April 2013. "Nonexchange financial guarantees" are defined as those financial guarantees in which equal or approximately equal consideration is not provided in exchange for the financial guarantee. The objective of GASB 70 is to enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees. GASB 70 also enhances the information disclosed about government's obligations and risk exposures from extending nonexchange financial guarantees as well as augmenting the ability of financial statement users to assess the probability that the government will likely be required to repay obligation holders.

Prior to the issuance of GASB 70, guidance applicable to **all** financial guarantees was found in GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. That guidance requires governments that guarantee the indebtedness of others (whether on an exchange or nonexchange basis) to recognize a liability related to the guarantee when (a) it is probable that the government will be required to make a payment as a result of the guarantee and (b) the amount of the loss can reasonably be estimated. With the issuance of GASB 70, a government should recognize a liability and an expense in financial statements prepared using the full-accrual basis of accounting when the government has determined that it is more likely than not (more than 50% likely) that a government will be required to make a payment related to the nonexchange financial guarantees it extended. In financial statements prepared using the modified-accrual basis of accounting a government should recognize a fund liability and an expenditure when the government has determined that it is more likely than not that a government will be required to make a payment related to the nonexchange financial guarantees it extended, only to the extent the liability is normally expected to be liquidated with expendable available financial resources.

When a government that extends a nonexchange financial guarantee recognizes a liability for the guarantee, the government that issued the guaranteed obligation should recognize a receivable equal to the amount of the liability recognized by the government that extended the guarantee, only if the government that issued the guaranteed obligation is one of the following:

- a) A blended component unit of that government
- b) A primary government that includes the government that extended the guarantee as a blended component unit within its reporting entity
- c) Within the same reporting entity and both parties are blended component units of the same primary government.

Governments that extend nonexchange financial guarantees should disclose the following information, by type of guarantee, in the notes to the financial statements:

- A description of the nonexchange financial guarantee, identifying:
  - The legal authority and limits for extending the guarantees and types of obligations guaranteed
  - The relationship of the government to the issuer or issuers of the obligations that are guaranteed
  - The length of time of the guarantees
  - Arrangements for recovering payments from the issuer or issuers of the obligations that are guaranteed
- The total amount of all guarantees extended that are outstanding at the reporting date.

In addition to note disclosures required for all nonexchange financial guarantees, the following information should also be disclosed for those guarantees where a liability is recognized or a payment incurred:

- A brief description of the timing of recognition and measurement of the liabilities and information about the changes in recognized guarantee liabilities, including the following:
  - Beginning-of-period balances
  - Increases, including initial recognition and adjustments increasing estimates
  - Guarantee payments made and adjustments decreasing estimates
  - End-of-period balances
- Cumulative amounts of indemnification payments that have been made on guarantees extended that are outstanding at the reporting date
- Amounts expected to be recovered from indemnification payments that have been made through the reporting date.

GASB 70 is effective for periods beginning after June 15, 2013. The 2014 Annual Fiscal Report (AFR) that OSRAP will place on its website before the end of the fiscal year will be amended to capture the information required to be reported and disclosed under GASB 70.

GASB 70 can be found on [GASB's website](#). You may contact Ms. Kimberly Dwin at (225) 219-4445 or via email at [Kimberly.Dwin@la.gov](mailto:Kimberly.Dwin@la.gov) with any questions regarding GASB 70.

AA:kd