



UT System Administration Policy Library -- Policy 142.10

Sales and Pledges of Receivables and Future Revenues and Intra-entity Transfers of Assets and Future Revenues

Responsible Officer: Associate Vice Chancellor – Controller and Chief Budget Officer

Sponsoring Office: Office of the Controller

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POLICY STATEMENT

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, issued in September 2006, addresses the accounting and financial reporting requirements in transactions where the University exchanges an interest in its expected cash flows from collecting 1) specific existing receivables or 2) specific future revenues for immediate cash payments—generally a single lump sum, although not always in the case of residual interests supported by a subordinate note or other form of residual certificate. The financial reporting question addressed by this Statement is whether these transactions should be:

- Regarded as a sale, and therefore revenue, or
- Regarded as a collateralized borrowing resulting in a liability

RATIONALE

This Statement establishes criteria that the University must use to ascertain whether the proceeds received should be reported as a sale (revenue) or as a collateralized borrowing (liability). The criteria must be used to determine the extent to which the University either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. The criteria determine the reporting treatment of the transaction – sale vs. liability. An evaluation questionnaire for assessing the University’s continuing involvement in the sale of existing receivables is provided in Exhibit 1 and an evaluation questionnaire for assessing continuing involvement in the sale of future revenues is provided in Exhibit 2. A transaction must be reported as a collateralized borrowing, *unless* the criteria indicating that a sale has taken place are met.

In addition, this Statement provides guidance for:

- Sales of existing receivables or future revenues within the same financial reporting entity (for example, between campuses; or between a campus and a campus foundation);
- Recognizing other assets and liabilities arising from the sale of specific existing receivables or future revenues, including residual interests and recourse provisions; and
- Disclosures pertaining to future revenues that have been pledged or sold.

Under GASB Statement No. 48, the University is required to:

- Identify, evaluate and properly report existing and future transactions where future cash flows associated with specific *existing* receivables have been exchanged to determine whether the transaction should be reported as a true sale, or a collateralized

- borrowing;
- Identify, evaluate and properly report existing and future transactions where future cash flows associated with specific *future* revenues have been exchanged to determine whether the transaction should be reported as a true sale, or a collateralized borrowing;
 - Identify and evaluate existing and future transactions where sales of existing receivables or future revenues have occurred, or are being considered, among entities within the University's financial reporting entity; and
 - Ensure appropriate disclosure of future revenues that have been pledged or sold, including information as to which revenues will be unavailable for other purposes and for how long they will continue to be unavailable.

GASB Statement No. 48:

- Generally prescribes new reporting requirements, rather than amending previous guidance;
- Is effective for fiscal year 2008.

This document is prepared in order to outline the University's approach to the application of GASB Statement No. 48 to the University's financial statements assuming the University is in the position of obtaining proceeds from the sale of existing receivables or future revenues, not from the position of buying receivables or future revenues from another organization. If a transaction to buy receivables or future revenues from another organization is contemplated, please contact the UT System Controller's Office controllersoffice@utsystem.edu for assistance in determining the appropriate accounting and reporting.

This document is also prepared on the basis that any sale of existing receivables or future revenues are with organizations that are not related to the University and are not a part of the University's financial reporting entity. If a transaction is contemplated to buy or sell receivables or future revenues from another organization within the University's financial reporting entity, or from another organization that is related to the University, please contact the UT System Controller's Office for assistance in determining the appropriate accounting and reporting.

In general, the transactions discussed in Statement 48 are not normal, ongoing operating transactions, at least the initial transaction is not routine. The UT System Controller's staff should be asked to review non-routine transactions or circumstances as transactions are completed, but no later than at year end, to ensure that any situation involving an exchange of the University's interest in the future cash flows associated with specific existing receivables or future revenues is identified, evaluated and properly reported.

GASB Statement No. 48 may be ordered from the GASB's website at www.gasb.org. There is no Implementation Guide at this time from the GASB for this Statement.

SCOPE

All institutions and UT System Administration.

WEBSITE ADDRESS FOR THIS POLICY

http://www.utsystem.edu/policy/policies/UTS142_10.html

RELATED STATUTES, POLICIES, REQUIREMENTS OR STANDARDS

UT System Administration Policies & Standards	Other Policies & Standards
	<ul style="list-style-type: none"><li data-bbox="873 980 1372 1190">• GASB Statement No. 48, <i>Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues</i>, issued in September 2006

CONTACTS

Subject	Office Name	Telephone Number	Email/URL
	Office of the Controller	512-499-4527	controllersoffice@utsystem.edu

DEFINITIONS

None

RESPONSIBILITIES

UT Institution

- Informs the UT System Office of the Controller if there are transactions where the University exchanges an interest in its expected cash flows from collecting 1) specific existing receivables or 2) specific future revenues for immediate cash payments.
- Completes appropriate Exhibit and Footnote information required by the UT System Office of the Controller.

UT System

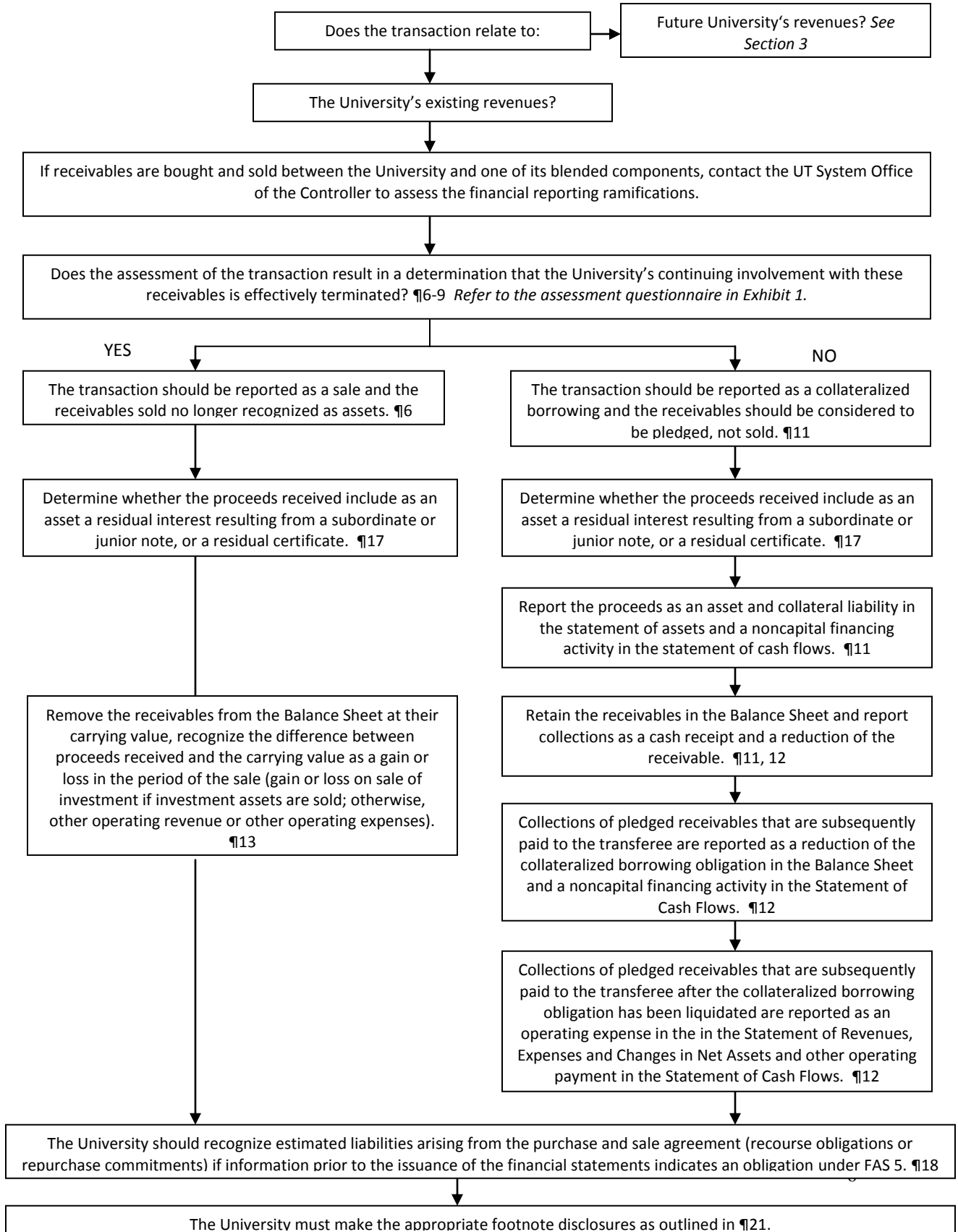
- Comply with GASB Statement No. 48 reporting requirements including footnote disclosures.

UT System Office of the Controller

- Interprets this policy and is responsible for revising it as necessary to meet the changing needs of The University of Texas System and any statutory requirements.

PROCEDURES

OVERVIEW OF THE ASSESSMENT PROCESS RELATED TO A TRANSACTION INVOLVING EXISTING RECEIVABLES



How should a transaction involving an exchange of the University's interest in the future cash flows associated with a specific existing receivable be assessed in order to determine whether the University has continuing involvement?

An exchange of the University's interest in the future cash flows associated with a specific existing receivable should be recognized for financial reporting purposes as a collateralized borrowing rather than a sale **unless** the appropriate criteria are met.

The most significant factor distinguishing sales from borrowings is the continuing involvement of the University. Certain criteria must be met that demonstrate that the University is no longer actively involved with the specific existing receivables it has transferred to another party. A government's continuing involvement is considered to be effectively terminated if all of the following criteria are met:

- The University cannot limit in any significant way the buyer's ability to subsequently sell or pledge the receivables;
- The University cannot unilaterally substitute for or reacquire specific receivables without the buyer's consent;
- Neither the University nor the buyer can cancel the sale, and;
- The University no longer has access to the receivables, or the cash collected from them in any substantive manner.

A complete questionnaire to be used for assessing the University's continuing involvement in each transaction is shown in Exhibit 1. Completion of the questionnaire, including pertinent references to the underlying purchase and sales contract, will serve to document the University's conclusion as to whether the transaction should be recorded as a true sale of receivables, or a collateralized borrowing.

Accounting for transactions that meet the criteria to be reported as sales

If the criteria for sale reporting are met, the University should no longer recognize as assets the receivables sold, removing the individual accounts at their carrying values. The difference between the proceeds (exclusive of amounts that may be refundable) and the carrying value of the receivables sold should be recognized as a gain or loss in the period sold.

If existing receivables that are classified as investments are sold, the resulting gain or loss is recorded as a gain or loss on investments (GASB 9, ¶27). If existing receivables that are not classified as investments are sold, the resulting gain is recorded as Other Operating Revenue and a loss is recorded as Other Operating Expense (GASB 9, ¶17).

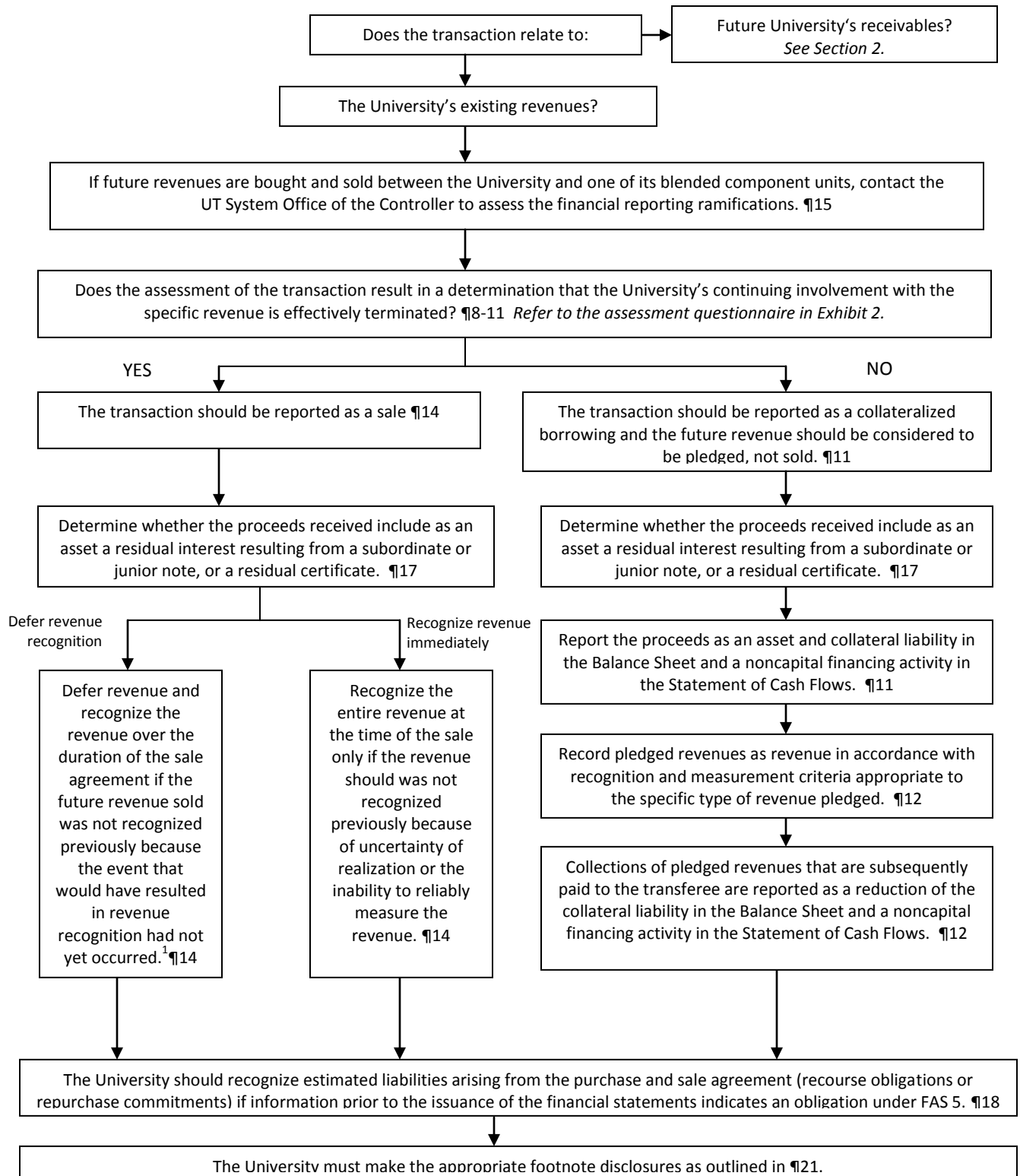
If the transaction involves the transfer of capital and financial assets and/or future revenues within the same financial reporting entity – for example, between an institution and its blended component unit – the financial reporting treatment is not the same as if the same transaction occurred with an external entity. See item number 6, Intra-Entity Transfers of Assets and Future Revenues for further discussion.

Accounting for transactions that do not qualify as sales

If the criteria for sale reporting are not met, the transaction should be reported as a collateralized borrowing. The receivables should be considered for financial statements purposes as being pledged rather than sold. Proceeds received by the University should be reported as a liability, collateralized borrowing obligation, separated between the current and noncurrent portions, on the Balance Sheet and as other noncapital financing activity in the Statement of Cash Flows (GASB 9, ¶21a).

The pledged receivables should continue to be recognized as assets on the University's Balance Sheet. Collections of these receivables that are subsequently paid to the transferee are reported as another noncapital financing use of cash in the Statement of Cash Flows and reduce the collateralized borrowing obligation on the University's Balance Sheet. Any pledged receivables collected and paid to the transferee after the collateralized borrowing obligation has been liquidated should be reported as an Other Operating Expense in the Statement of Revenues, Expenses, and Changes in Net Assets.

OVERVIEW OF THE ASSESSMENT PROCESS RELATED TO A TRANSACTION INVOLVING THE SALE OF FUTURE REVENUES



(1) Consummation of the future *revenue* sale transaction is not a substitute for a revenue recognition event. They are two different determinations.

How should a transaction involving the University's receipt of proceeds in exchange for cash flows from specific future revenues be assessed in order to determine whether the University has continuing involvement?

The University's receipt of proceeds in exchange for cash flows from specific future revenues should be recognized for financial reporting purposes as a collateralized borrowing rather than a sale, and the future revenue should be considered to be pledged, ***unless*** the appropriate criteria are met.

The most significant factor distinguishing sales from borrowings is the continuing involvement of the University. Certain criteria must be met that demonstrate that the University is no longer actively involved with the future revenues it has transferred to another party. A government's continuing involvement is considered to be effectively terminated if all of the following criteria are met:

- The University is no longer actively involved in the future generation of the revenues. The revenues cannot be a product of goods or services provided by the University, or a fee or charge that the University must impose. If the revenues are derived from grants or contributions, they cannot depend on the University subsequently submitting applications or meeting performance provisions to maintain eligibility to receive the revenues;
- Neither the University nor the buyer can cancel the sale;
- The University cannot limit in any significant way the buyer's ability to subsequently sell or pledge the future revenues, and;
- The University no longer has access to the future revenues, or the cash collected from them in any substantive manner.

A complete questionnaire to be used for assessing the University's continuing involvement in each transaction is shown in Exhibit 2. Completion of the questionnaire, including pertinent references to the underlying purchase and sales contract, will serve to document the University's conclusion as to whether the transaction should be recorded as a true sale of future revenues, or a collateralized borrowing.

Accounting for transactions that meet the criteria to be reported as sales

If the criteria for sale reporting are met, the University should report the proceeds as either deferred revenue or revenue in the same Statement of Revenues, Expenses and Changes in Net Assets line item as the revenue has been previously reported. Generally, revenue should be deferred and recognized over the duration of the sale agreement; however, there may be instances where recognition in the period of sale is appropriate. For transactions outside the financial reporting entity, deferral is required if the future revenue sold was not recognized previously because the event that would have resulted in revenue recognition had not yet occurred. Consummation of the future revenue sale is not a substitute for a revenue recognition event and, consequently, revenue from the sale should be deferred. Revenue should be recognized at the time of the sale only if the revenue sold was not recognized previously because of uncertainty of realization or the inability to reliably measure the revenue.

Amortization of deferred revenue and transaction charges.

Deferred revenues and transaction charges arising from the sale of future revenues should be amortized over the life of the sale agreement using a systematic and rational method.

If a transaction is being considered that involves the transfer of capital and financial assets and/or future revenues within the same financial reporting entity – for example, between an institution and its blended component unit – the financial reporting treatment is not the same as if the same transaction occurred with an external entity. See item number 6, Intra-Entity Transfers of Assets and Future Revenues for further discussion.

Accounting for transactions that do not qualify as sales

If the criteria for sale reporting are not met, the transaction should be reported as a collateralized borrowing. The future revenues should be considered for financial statements purposes as being pledged rather than sold. Proceeds received by the University should be reported as a collateralized borrowing obligation, separated between the current and noncurrent portions, on the Balance Sheet and as other noncapital financing activity in the Statement of Cash Flows.

The pledged revenues should continue to be recorded as revenue by the University in accordance with recognition and measurement criteria appropriate to the specific type of revenue pledged. Collections of the pledged revenues that are subsequently paid to the transferee are reported as another noncapital financing use of cash in the Statement of Cash Flows and reduce the collateralized borrowing obligation on the University's Balance Sheet.

RECOGNIZING OTHER ASSETS OR LIABILITIES ARISING FROM A SALE OF SPECIFIC RECEIVABLES OR SPECIFIC FUTURE REVENUES

Residual interests

If the University acquires a subordinate or junior note, or a residual certificate, representing the right to collections that exceed a stipulated level – generally, the annual or total debt service requirements of the transferee - the University must recognize the note or certificate as an asset representing a residual interest in:

- *Excess receivable collections*, giving consideration to the likelihood of collection. Residual interests recognized in the period in which the sale occurred should be treated as an adjustment to the gain or loss. Residual interests recognized in subsequent periods, for example, as a result of subsequent realization and collection should be reported as revenues once the appropriate revenue recognition requirements have been met.
- *Excess future revenues*, when the asset recognition criteria appropriate to the specific type of revenue that underlies the note or certificate have been met. Revenue recognition of the residual interest would also occur at that time.

The timing of the recognition of residual interests is difficult to generalize and should be discussed on a transaction by transaction basis, if the situation arises.

Recourse and other obligations

The University should recognize estimated liabilities arising from the purchase and sale agreement – for example, recourse obligations or repurchase commitments – when information available prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements *and* the amount of the liability can be estimated. Further guidance on the recognition of these types of potential liabilities can be found in Financial Accounting Standards Board Statement No. 5.

PLEDGING OF FUTURE REVENUES WHEN RESOURCES ARE NOT RECEIVED BY THE UNIVERSITY

Some governments, such as the State of Texas, pledge the future cash flows of specific revenues but do not receive resources in exchange for that pledge. For example, with Tuition Revenue Bonds, the State of Texas commits to pay interest and principal for Tuition Revenue debt on a biennial basis for debt issued by the UT System on behalf of its institutions. The System and UT institutions revenues are pledged in support of the debt.

At the time the pledge is made, the State of Texas should not recognize a liability, and the institutions should not recognize a receivable from the State for the future revenues/appropriations pledged in support of the institutions' Tuition Revenue Bonds. The institutions should recognize the appropriation revenue when the State is obligated to make the payments.

INTRA-ENTITY TRANSFERS OF ASSETS AND FUTURE REVENUES

These transactions would also appear to be highly unusual for the University and do not warrant extensive discussion in this document. They should be discussed with the UT System Controller's Office if they arise.

If a transaction is being considered that involves the transfer of capital and financial assets and/or future revenues within the same financial reporting entity – for example, between an institution and its blended component unit – the financial reporting treatment is not the same as if the same transaction occurred with an external entity.

In these situations, the transferee should recognize the assets or future revenues received at the carrying value of the transferor. For example, if a blended component unit sold receivables to an institution, the institution should recognize the receivables acquired at the carrying value of the blended component unit. If there is a difference between the amount paid by the institution (exclusive of amounts that may be refundable) and the carrying value of the receivables transferred, that difference should be reported as a gain or loss by the

blended component unit in their financial statements and as an operating revenue or expense in the institutions financial statements, however these amounts must be reclassified in the consolidated institution statements as a nonoperating revenue or expense.

In an intra-entity transfer sale of future revenues, the transferor has reported no carrying value for the rights sold because the asset recognition criteria have not been met. Therefore the transferee should not recognize an asset and related revenue until recognition criteria appropriate to that type of revenue are met. Instead, the transferee should report the amount paid as a deferred charge to be amortized over the duration of the transfer agreement. The transferor should defer the recognition of revenue from the sale and recognize it over the duration of the sale agreement.

Any deferred revenues and charges associated with these types of transactions must be properly disclosed in the University's consolidated financial statements.

DISCLOSURES RELATED TO FUTURE REVENUES THAT ARE PLEDGED OR SOLD

Pledged revenues are those specific revenues that have been formally committed to directly collateralize or secure debt of the UT System or institution, or directly or indirectly collateralize or secure debt of a component unit.

For each year in which the secured debt remains outstanding at the end of the year, the UT System on behalf of the institutions should disclose in the notes to the financial statements information about specific revenues pledged, including:

- Identification of the specific revenue pledged and the approximate amount of the pledge. Generally, the approximate amount of the pledge would be equal to the remaining principal and interest payments of the secured debt.
- Identification of, and general purpose for, the debt secured by the pledged revenue.
- The term of the commitment—that is, the period during which the revenue will not be available for other purposes.
- 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.
- 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.

Footnote 9, Bonded Indebtedness, and Schedule 2D, Analysis of Funds Available for Debt Service, serve the purpose of meeting the disclosures required under GASB 48.

In the year of the sale, if the University sells future revenue streams, it must disclose in the notes to the financial statements information about the specific revenues sold, including:

- Identification of the specific revenue sold, including the approximate amount and the

- significant assumptions used in determining the approximate amount.
- The period to which the sale applies.
 - The relationship of the sold amount to the total for that specific revenue, if estimable.
 - 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.

SPECIAL INSTRUCTIONS FOR INITIAL IMPLEMENTATION

The provisions of this statement are effective for financial statements for periods beginning after December 31, 2006, or fiscal year 2008 for the UT System.

FORMS AND TOOLS/ONLINE PROCESSES

[Exhibit 1: Evaluation Questionnaire for Assessing the University's Continuing Involvement in the Sale of Existing Receivables](#)

[Exhibit 2: Evaluation Questionnaire for Assessing the University's Continuing Involvement in Future Revenues](#)

APPENDIX

None

Keywords: accounting
