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

Does the transaction relate to:

Future University’s receivables?

See Section 2.

The University’s existing revenues?

If future revenues are bought and sold between the University and one of its blended component units, contact the UT System Office of the Controller to assess the financial reporting ramifications. ¶15

Does the assessment of the transaction result in a determination that the University’s continuing involvement with the specific revenue is effectively terminated? ¶8-11 Refer to the assessment questionnaire in Exhibit 2.

YES

The transaction should be reported as a sale ¶14

The University should recognize estimated liabilities arising from the purchase and sale agreement (recourse obligations or repurchase commitments) if information prior to the issuance of the financial statements indicates an obligation under FAS 5. ¶18

Defer revenue recognition

Defer revenue and recognize the revenue over the duration of the sale agreement if the future revenue sold was not recognized previously because the event that would have resulted in revenue recognition had not yet occurred. ¶14

Recognize revenue immediately

Recognize the entire revenue at the time of the sale only if the revenue should was not recognized previously because of uncertainty of realization or the inability to reliably measure the revenue. ¶14

NO

The transaction should be reported as a collateralized borrowing and the future revenue should be considered to be pledged, not sold. ¶11

Determine whether the proceeds received include as an asset a residual interest resulting from a subordinate or junior note, or a residual certificate. ¶17

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Report the proceeds as an asset and collateral liability in the Balance Sheet and a noncapital financing activity in the Statement of Cash Flows. ¶11

Record pledged revenues as revenue in accordance with recognition and measurement criteria appropriate to the specific type of revenue pledged. ¶12

Collections of pledged revenues that are subsequently paid to the transferee are reported as a reduction of the collateral liability in the Balance Sheet and a noncapital financing activity in the Statement of Cash Flows. ¶12

The University must make the appropriate footnote disclosures as outlined in ¶21.

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