

1. Title

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

2. Policy

Sec. 1 Purpose.

The purpose of this Policy is to establish 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

- (a) 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);
- (b) recognizing other assets and liabilities arising from the sale of specific existing receivables or future revenues, including residual interests and recourse provisions; and
- (c) disclosures pertaining to future revenues that have been pledged or sold.

Sec. 2 Requirements. Under GASB Statement No. 48, the University is required to:

- (a) 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;

- (b) 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;
- (c) 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
- (d) 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.

2.1 Provisions and Effective Date. GASB Statement No. 48

- (a) generally prescribes new reporting requirements, rather than amending previous guidance; and
- (b) is effective for Fiscal Year 2008.

2.2 Application of GASB Statement No. 48. 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 U. T. System Controller's Office controllersoffice@utsystem.edu for assistance in determining the appropriate accounting and reporting.

2.3 Sale of Receivables and Revenues. 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 U. T. System Controller's Office for assistance in determining the appropriate accounting and reporting.

- 2.4 Transactions. In general, the transactions discussed in Statement 48 are not normal, ongoing operating transactions, at least the initial transaction is not routine. The U. T. System Controller's staff should be asked to review nonroutine 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.
 - 2.5 Resources. 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.
- Sec. 3 Policy Statement. Governmental Accounting Standards Board (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 of Texas System 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
- 3.1 regarded as a sale, and therefore revenue; or
 - 3.2 regarded as a collateralized borrowing, resulting in a liability.
- Sec. 4 Overview of the Assessment Process Related to a Transaction Involving Existing Receivables. See chart shown in Exhibit 1.
- 4.1 Assessment of 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?
 - (a) 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.

- (b) 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:
 - i. the University cannot limit in any significant way the buyer's ability to subsequently sell or pledge the receivables;
 - ii. the University cannot unilaterally substitute for or reacquire specific receivables without the buyer's consent;
 - iii. neither the University nor the buyer can cancel the sale; and
 - iv. the University no longer has access to the receivables or the cash collected from them in any substantive manner.
- (c) 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.

4.2 Accounting for Transactions that Meet the Criteria to be Reported as Sales.

- (a) 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.
- (b) 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, Paragraph 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, Paragraph 17).

- (c) 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 Section 7, Intra-Entity Transfers of Assets and Future Revenues for further discussion.

4.3 Accounting for Transactions that Do Not Qualify as Sales.

- (a) If the criteria for sale reporting are not met, the transaction should be reported as a collateralized borrowing. For financial statements, the receivables should be considered 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, Paragraph 21a).
- (b) 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.

Sec. 5 Overview of the Assessment Process Related to a Transaction Involving the Sale of Future Revenues. See chart shown in Exhibit 3.

- 5.1 Assessment of Future Revenues. 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?

- (a) 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.
 - (b) 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:
 - i. 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;
 - ii. neither the University nor the buyer can cancel the sale;
 - iii. the University cannot limit in any significant way the buyer's ability to subsequently sell or pledge the future revenues; and
 - iv. the University no longer has access to the future revenues, or the cash collected from them in any substantive manner.
 - (c) A complete questionnaire to be used for assessing the University's continuing involvement in each transaction is shown in Exhibit 4. 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.
- 5.2 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.

- 5.3 Amortization of Deferred Revenue and Transaction Charges.
- (a) 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.
 - (b) 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 Section 8, Intra-Entity Transfers of Assets and Future Revenues, for further discussion.
- 5.4 Accounting for Transactions that Do Not Qualify as Sales.
- (a) If the criteria for sale reporting are not met, the transaction should be reported as a collateralized borrowing. For financial statements, the future revenues should be considered 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.
 - (b) 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.

Sec. 6 Recognizing Other Assets or Liabilities Arising from a Sale of Specific Receivables or Specific Future Revenues.

6.1 Residual Interests.

(a) 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:

- i. *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.
- ii. *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.

(b) 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.

6.2 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 (FASB) Statement No. 5.

Sec. 7 Pledging of Future Revenues When Resources are Not Received by the University.

- 7.1 Pledges in Support of Debt. 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 U. T. System on behalf of its institutions. The U. T. System and institutions' revenues are pledged in support of the debt.
- 7.2 Timing for Recognizing Revenue. 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.

Sec. 8 Intra-Entity Transfers of Assets and Future Revenues.

- 8.1 Transactions. 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 U. T. System Controller's Office if they arise.
- 8.2 Transfers Within the Same Financial Reporting Entity. 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.
- 8.3 Recognizing Assets or Future Revenues Received. In situations involving intra-entity transfers, 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.

- 8.4 Deferral of Revenue Recognition. 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.
- 8.5 Disclosures. Any deferred revenues and charges associated with these types of transactions must be properly disclosed in the University's consolidated financial statements.

Sec. 9 Disclosures Related to Future Revenues that are Pledged or Sold.

- 9.1 Pledged Revenues. Pledged revenues are those specific revenues that have been formally committed to directly collateralize or secure debt of the U. T. System or institution, or directly or indirectly collateralize or secure debt of a component unit.
- 9.2 Disclosures. For each year in which the secured debt remains outstanding at the end of the year, the U. T. System, on behalf of the institutions, should disclose in the notes to the financial statements information about specific revenues pledged, including
 - (a) 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;
 - (b) identification of, and general purpose for, the debt secured by the pledged revenue;

- (c) the term of the commitment - that is, the period during which the revenue will not be available for other purposes;
- (d) 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; and
- (e) 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.

9.3 Compliance with Disclosure Requirements. 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.

9.4 Disclosure of Sale of Future Revenues. In the year of the sale, if the University sells future revenue streams, the university must disclose, in the notes to the financial statements, information about the specific revenues sold, including:

- (a) identification of the specific revenue sold, including the approximate amount and the significant assumptions used in determining the approximate amount;
- (b) the period to which the sale applies;
- (c) the relationship of the sold amount to the total for that specific revenue, if estimable; and
- (d) 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.

3. Definitions

None

4. Relevant Federal and State Statutes, Policies, and Standards

[GASB Statement No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Fund and Governmental Entities that Use Proprietary Fund Accounting, issued in September 1989](#)

[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](#)

[FASB Statement No. 5, Accounting for Contingencies, issued in March 1975](#)

5. Relevant System Policies, Procedures, and Forms

[Overview of the Assessment Process Related to a Transaction Involving Existing Receivables \[this and the next chart were formerly part of the policy, but did not format properly with new template\]](#)

[Overview of the Assessment Process Related to a Transaction Involving the Sale of Future Revenues](#)

[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](#)

6. System Administration Office(s) Responsible for Policy

Office of the Controller

7. Dates Approved or Amended

October 13, 2008

June 4, 2013