

GASB STATEMENT NO. 48**SALES AND PLEDGES OF RECEIVABLES AND FUTURE REVENUES AND
INTRA-ENTITY TRANSFERS OF ASSETS AND FUTURE REVENUES****Table of Contents**

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1. INTRODUCTION

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.

This Statement establishes criteria that the University must use to ascertain whether the proceeds received should be reported as revenue or as a 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. 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; between a campus and a campus foundation; or between the University and the UCRS);
- 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 FY 2007–2008. Depending on the University’s review of previous transactions, if the evaluation does not result in any change to previously reported results, the University may adopt early and apply the provisions of Statement 48 for FY 2006–2007. Otherwise, restatement of the University’s financial statements for prior periods will be required. In that case, the University will adopt the provisions for the FY 2007–2008 and restate FY 2006–2007 results, as outlined in paragraph 23;
- Applies to all entities where these transactions have occurred or may occur including:
 - the separately audited UCRP and PERS-VERIP financial statements;
 - the separately audited UC Retirement Savings Plans, including the DCP, 403(b), and 457(b);
 - the separately audited OPEB financial statements (once the OPEB Trust is established on July 1, 2007);
 - the campus foundations;
 - the separately audited Medical Center, UC Press and CEB financial statements; and
 - the separately audited Health and Welfare Plan financial statements.

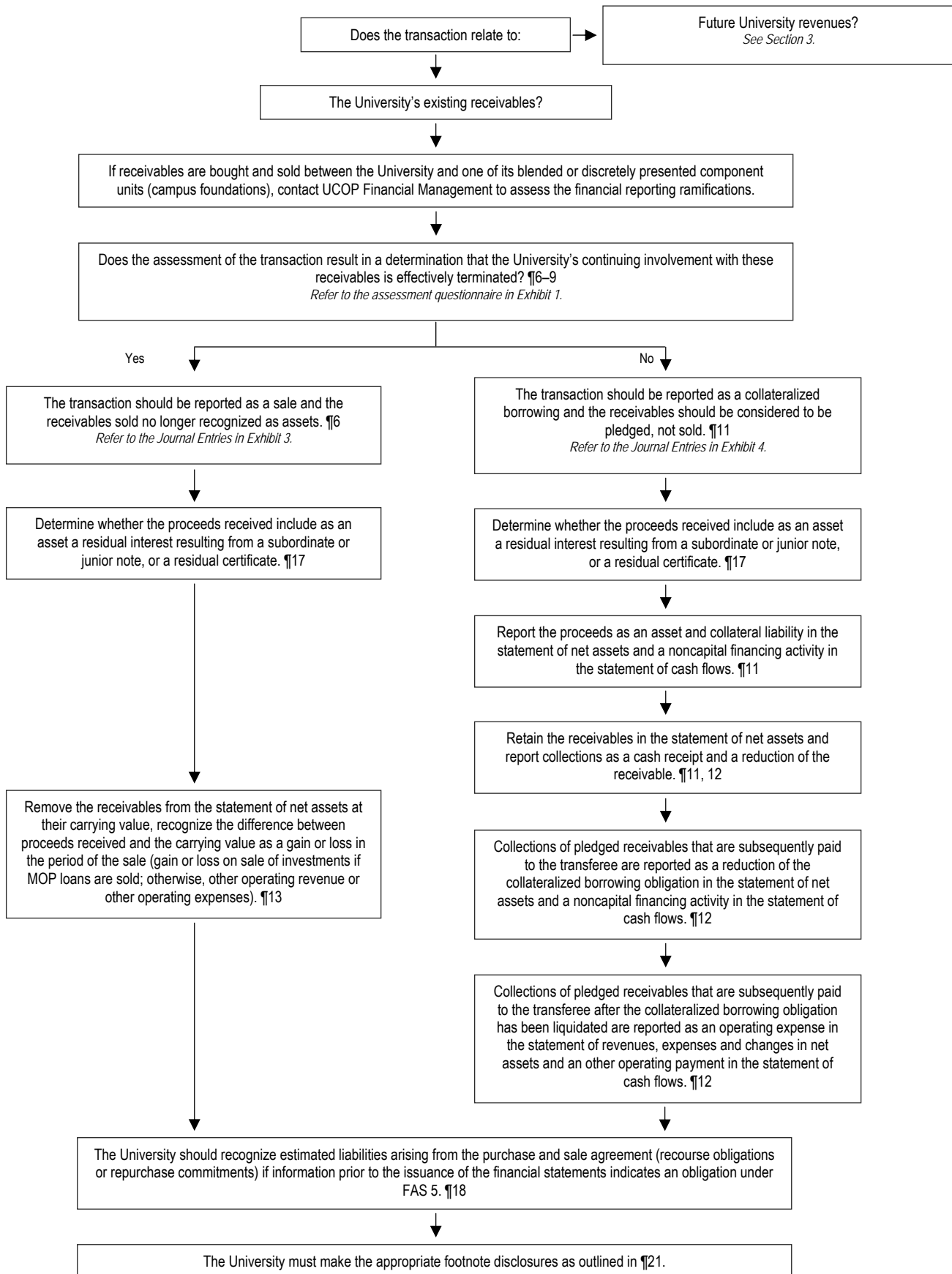
This document is prepared in order to outline the University’s approach to the application of GASB Statement No. 48 to the University’s financial statements assuming the University is in the position of obtaining proceeds from the sale of existing receivables or future revenues, not from the position of buying receivables or future revenues from another organization. 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. If a transaction to buy receivables or future revenues from another organization is contemplated, please contact UCOP Financial Management 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 UCOP Financial Management 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 Controller and Controller’s staff should review non-routine transactions or circumstances at year end to determine that any situation involving an exchange of the University’s interest in the future cash flows associated with specific existing receivables or future revenues are 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.

2. 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 sample of the criteria, although not an exhaustive list, includes:

- 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 receivables;
- The University no longer has access to the receivables, or the cash collected from them in any substantive manner; and/or
- The University cannot unilaterally substitute for or reacquire specific receivables without the buyer's consent.

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 sale 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 (see Exhibit 3).

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.

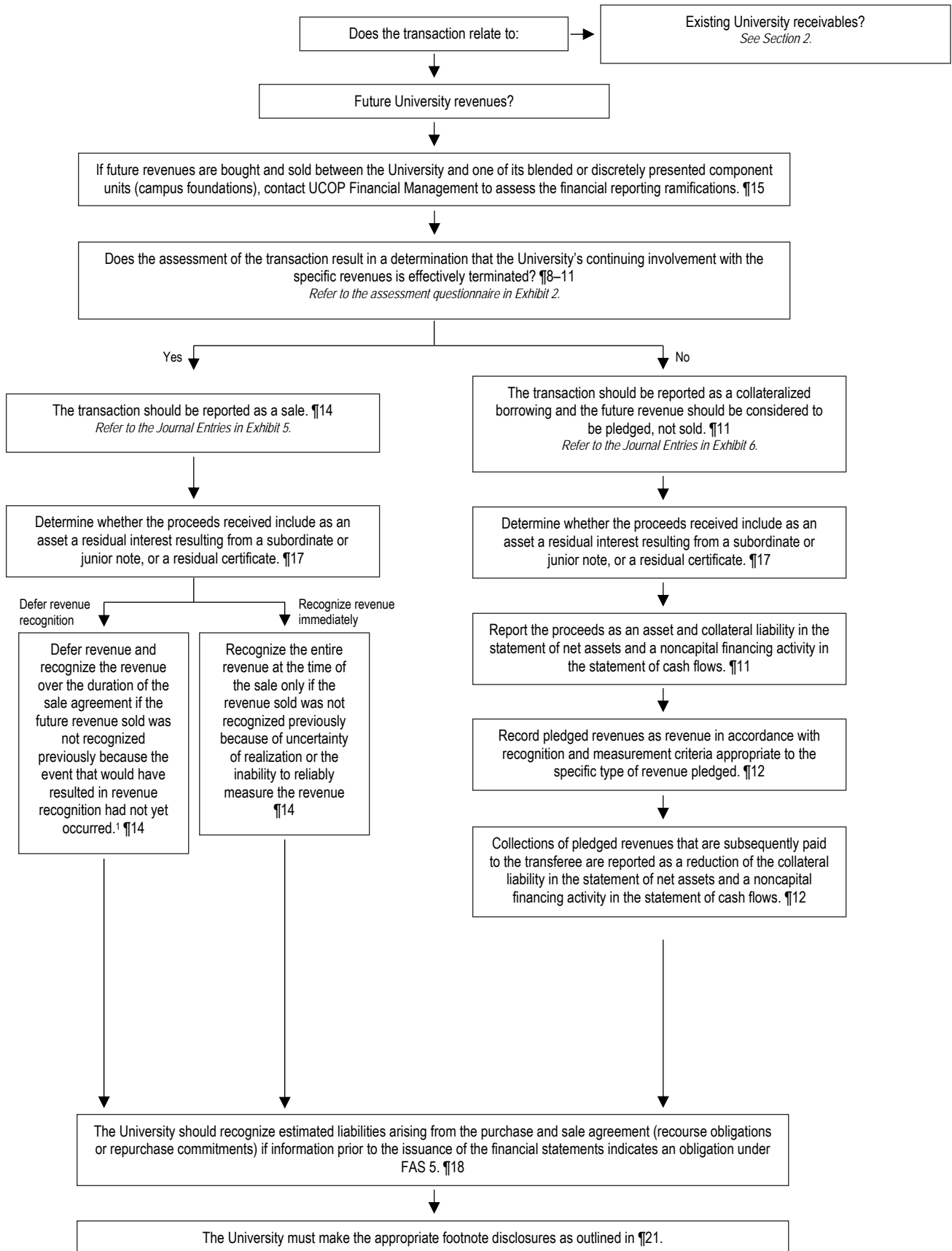
If Mortgage Origination Program (MOP) loans are sold, the resulting gain or loss is recorded as a gain or loss on investments since the MOP loans are included in the University's investment portfolio (GASB 9, ¶27). If existing receivables that are not classified as investments are sold, the resulting gain is recorded as other operating revenue and a loss is recorded as other operating expense (GASB 9, ¶17).

Accounting for transactions that do not qualify as sales (see Exhibit 4).

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, in the statement of net assets 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 in the University's statement of net assets. Collections of these receivables that are subsequently paid to the transferee are reported as an other noncapital financing use of cash in the statement of cash flows and reduce the collateralized borrowing obligation in the University's statement of net assets. Any pledged receivables collected and paid to the transferee after the collateralized borrowing obligation has been liquidated should be reported as an operating expense in the statement of revenues, expenses and changes in net assets.

3. 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 sample of the criteria, although not an exhaustive list, includes:

- 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;
- The University no longer has access to the future revenues, or the cash collected from them in any substantive manner;
- 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.

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 sale 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 (see Exhibit 5).

If the criteria for sale reporting are met, the University should report the proceeds as either deferred revenue or revenue. 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.

Accounting for transactions that do not qualify as sales (see Exhibit 6).

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, in the statement of net assets 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 an other noncapital financing use of cash in the statement of cash flows and reduce the collateralized borrowing obligation in the University's statement of net assets.

4. 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, 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.

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

These transactions would appear to be highly unusual for the University and do not warrant extensive discussion in this document. These situations should be discussed with UCOP Financial Management if they arise.

While not the case in the University at present, if the University pledges future cash flows of specific revenues but do not receive resources in exchange for that pledge, it requires certain disclosures and ultimately the reporting of payments made under the pledge. For example, the University could pledge its revenues in support of debt issued by a component unit.

If this situation arises, at the time the pledge is made, the University should not recognize a liability, and the component unit should not recognize a receivable for the futures revenues pledged in support of its debt. The University would continue to recognize revenue from the pledged amounts and would recognize a liability to the debt-issuing component unit and an expense simultaneously with the recognition of the revenues that are pledged. The debt-issuing component unit should recognize revenue when the University is obligated to make the payments.

6. 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 UCOP Financial Management 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 a campus and its foundation or a foundation and its campus – 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 campus foundation sold receivables to a campus, the campus should recognize the receivables acquired at the carrying value of the campus foundation. If there is a difference between the amount paid by the campus (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 campus foundation in their separately audited financial statements and as an operating revenue or expense in the campus statements, however these amounts must be reclassified in the consolidated University statements as a nonoperating subsidy.

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.

7. 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 University, or directly or indirectly collateralize² or secure debt of a component unit.

For each year in which the secured debt remains outstanding at the end of the year, the University 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.

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.

² *In an indirect collateralization, the pledged revenue agreement is not directly between the University and the bondholders. The University's resources do not secure the debt; rather, the debt is secured by the University's payment to the component unit that is financed by that revenue. In this case, the University would make an annual grant to the component unit, which, in turn, pledges that revenue as security for its debt.*

8. ACCOUNTING AND REPORTING

New accounting codes need to be established in the Corporate Financial System to enable mapping to our financial statements. At this time, codes in the Current Funds group and the Loan Funds group are being established. If a review of transactions indicates that codes are needed in another fund group, contact UCOP Financial Management. The new codes will roll up into the financial statements as follows:

STATEMENT OF NET ASSETS

	<u>CURRENT</u>	<u>LOAN</u>
<i>Roll up into Current Portion of Notes and Mortgages Receivable:</i>		
CA-Note receivable – sale of receivable – sale	AGC160614	AGC140614
CA-Note receivable – sale of receivable – collateralized borrowing	AGC160615	AGC140615
CA-Note receivable – sale of future revenues – sale	AGC160616	AGC140616
CA-Note receivable – sale of future revenues – collateralized borrowing	AGC160617	AGC140617
CA-Note receivable – sale of receivable – investment	AGC160618	N/A
<i>Roll up into Notes Receivable:</i>		
NA-Note receivable – sale of receivable – sale	AGC161330	AGC141330
NA-Note receivable – sale of receivable – collateralized borrowing	AGC161340	AGC141340
NA-Note receivable – sale of future revenues – sale	AGC161350	AGC141350
NA-Note receivable – sale of future revenues – collateralized borrowing	AGC161360	AGC141360
NA-Note receivable – sale of receivable – investment	AGC161370	N/A
<i>Roll up into Deferred Revenue:</i>		
CL-Deferred revenue – sale of future revenues	AGC164350	AGC144350
CL-Deferred revenue – sale of future revenues – earned	AGC164360	AGC144360
<i>Roll up into Other Current Liabilities:</i>		
CL-Collateralized borrowing obligations – sale of receivables	AGC164761	AGC144761
CL-Collateralized borrowing obligations – sale of receivables – payt.	AGC164762	AGC144762
CL-Collateralized borrowing obligations – sale of future revenue	AGC164763	AGC144763
CL-Collateralized borrowing obligations – sale of future revenue – payt.	AGC164764	AGC144764
<i>Roll up into Other Noncurrent Liabilities:</i>		
NL-Collateralized borrowing obligations – sale of receivables	AGC165571	AGC145571
NL-Collateralized borrowing obligations – sale of future revenue	AGC165573	AGC145573
NL-Deferred revenue-sale of future revenues	AGC165580	AGC145580

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	<u>CURRENT</u>	<u>LOAN</u>
<i>Roll up into Other Operating Revenue:</i>		
Gain on sale of receivables	AGC208300	TC8026
<i>Roll up into Other Operating Expense:</i>		
Loss on sale of receivables	OC7630	TC8123
Payment of pledged receivables ³	OC7640	TC8124

³ Object code to be used to reflect any collections of pledged receivables subsequently paid to the transferee after the collateralized borrowing obligation has been liquidated.

9. IMPLEMENTATION/TRANSITION REQUIREMENT

For the initial year of implementation, in order to determine the effect of the restatement, if any, of the prior period financial statements, UCOP and the campuses will need to determine whether they have previously sold any receivables or future revenues and, if so, whether they are true sales or a collateralized borrowing.

This information must be reported to Amal Smith (amal.smith@ucop.edu or 510/ 987.0940) in UCOP Financial Management by April 1, 2007 using the format shown in Exhibits 1 and 2.

10. NEXT STEPS — REQUIRED ACTIONS

Responsibility (C, OP)	Required Completion Date	Action Item/Task
C, OP	March 2007	Evaluate existing transactions – Determine whether any previous sale of existing receivables or future revenues is a collateralized borrowing (Exhibits 1 and 2).
OP	March 2007	Assign new accounting codes —Assign new accounting codes to record the sale of receivables or future revenues (Exhibit 8).
C	1-Apr-07	Submit evaluation of existing transactions —Submit to UCOP the evaluation performed in March 2007 to determine whether any previous sale of existing receivables or future revenues is a collateralized borrowing (Exhibits 1 and 2).
OP	April 2007	Decide whether to implement early – Based upon the evaluation of existing transactions, determine whether the University will implement Statement No. 48 for FYE June 30, 2007.
OP	April 2007	Add accounting codes to CFR driver tables —Add new sale of receivable or future revenue accounting codes to CFR driver tables.
OP	April 2007	Develop footnote reports —Develop CFR footnote reports to accumulate sale of receivable or future revenue information (see Exhibit 9).
C	May 2007	Establish new accounting codes in campus ledger —Establish new sale of receivable or future revenue accounting codes in campus ledger.
C	May 2007	Restate FYE June 30, 2006, as necessary, if implemented early.
C, OP	June 2007	Fiscal Closing Calendar —Add a step to the fiscal closing calendar to review any sales of existing receivables or future revenues for proper financial reporting treatment.

EXHIBIT 1: EVALUATION QUESTIONNAIRE FOR ASSESSING THE UNIVERSITY'S CONTINUING INVOLVEMENT IN THE SALE OF EXISTING RECEIVABLES

A significant aspect of the assessment is the degree to which the University retains or relinquishes to the transferee control over the existing receivables. A transaction in which the University receives or is entitled to proceeds in exchange for the future cash flows from existing receivables should be reported as a sale if the University's continuing involvement with these receivables is effectively terminated (§6).

The determination of whether the University's continuing involvement is effectively terminated is dependent upon an evaluation of the following criteria. A "yes" answer to any one of the questions indicates the University's continuing involvement is not effectively terminated and, therefore, the transaction should not be reported as a sale.

Transaction Assessed: _____

Conclusion: _____

	<i>Yes/No</i>	<i>Source Document/ Specific Reference</i>
<p>Questions 1–3 outline the criteria to determine whether the substance of the transaction is indicative of whether the sale has been substantively consummated.</p> <p>1. Is the transferee's ability to subsequently sell or pledge the receivables significantly limited by the constraints imposed by the University, either in the transfer agreement or through other means? (§6a)</p>	_____	_____
<p>2. Does the University have the option or ability to <u>unilaterally</u> substitute for or reacquire specific accounts from among the receivables transferred? <i>Note:</i> The ability or obligation to substitute for defective accounts, at the option of the transferee, would not violate this criterion. For example, accounts that do not possess the characteristics stipulated in a transfer agreement may be replaced by ones that do possess those traits. In addition, insignificant "clean-up" calls by which the University may reacquire remaining uncollected accounts when the outstanding secured debt reaches a specified minimum balance would likewise not violate this criterion. (§6b)</p>	_____	_____
<p>3. Is the sale agreement cancellable by either party, including cancellation through payment of a lump sum or transfer of other assets or rights? (§6c)</p>	_____	_____

Questions 4–6 outline the criteria to determine whether the transferee has a separate legal standing from the University.

<p>4. Is the separate organization's legal entity the same as the University's legal entity? (§7a)</p>	_____	_____
<p>5. Do the corporate powers of the transferee organization fail to distinguish it as being legally separate from the University? (§7a)</p>	_____	_____

	<u>Yes/No</u>	<u>Source Document/ Specific Reference</u>
6. Do the corporate powers of the transferee organization preclude it from being sued in its own name without recourse to the University, or preclude it from the right to buy or sell, lease or mortgage property without the University's approval? (§7a)	_____	_____
Question 7 outlines the criteria to determine whether the receivables are isolated from the University should it become the subject of a bankruptcy proceeding.		
7. Do provisions in the transfer agreement (or provided elsewhere in statutes, charters or other governing documents or agreements) fail to protect the transferee from the claims of the University's creditors? (§7c)	_____	_____
If "yes" to <u>any one</u> of Questions 1–7, the University has continuing involvement and the transaction must be recorded as a collateralized borrowing, not a true sale of the receivables.		
If "no" to <u>all</u> of Questions 1–7, continue to assess whether the receivables are isolated from the University.		
Generally, banking arrangements should eliminate access by the University or its component units to the cash generated by collecting the receivables. Access is eliminated when payments on individual accounts are made directly to a custodial account maintained for the benefit of the transferee.		
8. Are payments on individual accounts made through the University (and, presumably, then remitted to the transferee), as opposed to payments on individual accounts made directly to a custodial account maintained for the benefit of the transferee? (§7b)	_____	_____
If the answer to <u>all</u> of Questions 1–7 and Question 8 is "no," then the transaction must be reported as a true sale of receivables and not a collateralized borrowing.		
If the answer to Question 8 is "yes" it tentatively leads to a presumption of a collateralized borrowing that may be mitigated by "no" answers to the following questions. It may be that the University continues to service the accounts, or obligors may misdirect their payments to the University rather than the transferee. In this circumstance, access to the cash generated by collecting the receivables is deemed to be eliminated if <u>all</u> of the answers to the following questions are "no."		
9. Does the University have an obligation to advance amounts to the transferee before it collects equivalent amounts from the underlying individual accounts? <i>Note:</i> The payments to the transferee should be made only from the resources generated by the specific receivables rather than from the University's own resources. (§7b(1))	_____	_____

	<u>Yes/No</u>	<u>Source Document/ Specific Reference</u>
10. Is the cash collected by the University on behalf of the transferee remitted to the transferee after significant delay? (§7b(2))	_____	_____
11. Are earnings on invested collections held by the University instead of passed on to the transferee? (§7b(2))	_____	_____
12. Do the University's general ledger and accounts receivable sub-ledger fail to consider sale proceeds from the transferee as satisfaction of individual accounts? (§7b(3))	_____	_____
13. Does the University fail to indicate in its records which accounts have been transferred and which collections pertain to those accounts? (§7b(3))	_____	_____

If the answers to Questions 1–7 and 9–13 are “no,” notwithstanding the fact that the answer to Question 8 is “yes,” then the transaction must be recorded as a true sale, not as a collateralized borrowing.

Prepared by: _____ **Date:** _____

Reviewed by: _____ **Date:** _____

EXHIBIT 2: EVALUATION QUESTIONNAIRE FOR ASSESSING THE UNIVERSITY'S CONTINUING INVOLVEMENT IN FUTURE REVENUES

A significant aspect of the assessment is the degree to which the University retains or relinquishes to the transferee control over the future revenues. A transaction in which the University currently receives or is entitled to proceeds in exchange for future cash flows from future revenues should be reported as a sale if the University's continuing involvement with these future revenues is effectively terminated (§8). Note, however, that recognition of the revenue may need to be deferred.

The determination of whether the University's continuing involvement is effectively terminated is dependent on an evaluation of the following criteria. A "yes" answer to any one of the questions indicates the University's involvement is not terminated and, therefore, the transaction should not be reported as a sale.

Transaction Assessed: _____

Conclusion: _____

	<i>Yes/No</i>	<i>Source Document/ Specific Reference</i>
<p>Questions 1–4 outline the criteria to determine whether the University maintains active involvement in the future generation of revenues exchanged for current proceeds. Active involvement generally requires a substantive action or performance by the University. The University must determine whether the primary, fundamental activity or process that generates a specific revenue requires a continuing active involvement (§9).</p>		
<p>1. Does the University produce or provide the goods or services that are exchanged for the revenues. (§9a)</p>	_____	_____
<p>2. Does the University levy or assess taxes, fees, or charges and can the University directly influence the revenue base or the rate(s) applied to that base to generate the revenues? (§9b)</p>	_____	_____
<p>3. Is the University required to submit applications for grants or contributions from other governments, organizations or individuals to obtain the revenues? (§9c)</p> <p style="margin-left: 20px;">Note: This application criterion refers to ongoing requirements that qualify the University to continue to receive grants or contributions in future years, rather than an initial application or qualification process that remains effective without further effort by the University.</p>	_____	_____
<p>4. Is the University required to meet grant or contribution performance provisions to qualify for those revenues? (§9d)</p>	_____	_____

Questions 5–7 outline the criteria to determine whether the substance of the transaction is indicative of whether the sale has been substantively consummated.

5. Is the transferee’s ability (or the ability of the ultimate holder/owner of the future cash flows) to subsequently sell or pledge the future cash flows significantly limited by constraints imposed by the University, either in the transfer agreement or through other means? (§8b)

6. Does the contract, agreement, or other arrangement between the original resource provider (a grantor organization, for example) and the University prohibit the transfer or assignment of those resources? (§8d)

7. Is the sale agreement cancellable by either party, including cancellation through payment of a lump sum or transfer of other assets or rights? (§8e)

If “yes” to any one of Questions 1–7, the University has continuing active involvement and the transaction must be recorded as a collateralized borrowing, not a true sale of the future revenues.

If “no” to all of Questions 1–7, continue to assess whether the future revenues are isolated from the University.

Generally, banking arrangements should eliminate access by the University or its component units to the cash generated by collecting the future revenues. Access is eliminated when cash collection of future revenues are made directly to a custodial account maintained for the benefit of the transferee.

8. Are cash collections of future revenues made through the University (and, presumably, then remitted to the transferee), as opposed to cash collections of future revenues made directly to a custodial account maintained for the benefit of the transferee? (§8c)

If the answer to all of Questions 1–7 and Question 8 is “no,” then the transaction must be reported as a true sale of future revenues and not a collateralized borrowing.

If the answer to Question 8 is “yes” it tentatively leads to a presumption of a collateralized borrowing that may be mitigated by “no” answers to the following questions. It may be that the University continues to collect the future revenues, or obligors may misdirect their payments to the University rather than the transferee. In this circumstance, access to the cash generated by collecting the future revenues is deemed to be eliminated if all of the answers to the following questions are “no.”

9. Does the University have an obligation to advance amounts to the transferee before it collects equivalent amounts from the future revenues? *Note:* The payments to the transferee should be made only from the resources generated by the specific future revenues rather than from the University’s own resources. (§7b(1))

10. Is the cash collected by the University on behalf of the transferee remitted to the transferee after significant delay? (¶7b(2))

_____	_____
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If the answers to Questions 1–7 and 9–10 are “no,” notwithstanding the fact that the answer to Question 8 is “yes,” then the transaction must be recorded as a true sale, not as a collateralized borrowing.

The University may remain associated with specific revenues in ways that do not constitute the primary or fundamental activity that generates the revenues and thus would not be considered to be actively involved in the generation of those revenues.

Perform an assessment of the following, although a “yes” answer is informational and not indicative of active involvement.

11. Does the University hold title to revenue-producing assets (for leases, rents or royalty income, for example)? (¶10a)

_____	_____
-------	-------

12. Does the University own a contractual right to a stream of future revenues? (¶10b)

_____	_____
-------	-------

13. Does the University maintain an association with the future revenues by retaining the required characteristics of the future revenues in order for the cash to flow? (GASB Statement No. 33 ¶20a)

_____	_____
-------	-------

14. Does the University maintain an association with the future revenues by meeting time requirements specified by enabling legislation or the provider? (GASB Statement No. 33 ¶20b)

_____	_____
-------	-------

15. Does the University maintain an association with the future revenues by incurring allowable costs under the applicable programs where the provider offers resources on a reimbursement (“expenditure-driven”) basis? (GASB Statement No. 33 ¶20c)

_____	_____
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16. Does the University maintain an association with the future revenues by meeting a specified action required by the provider of the resources? The provider’s offer of resources is contingent upon a specified action of the recipient and that action has occurred. (For example, the University is required to raise a specific amount of resources from third parties or to dedicate its own resources for a specified purpose and has complied with those requirements.) (GASB Statement No. 33 ¶20d)

17. Has the University agreed to refrain from specified acts or transactions (e.g., agreeing to non-competition restrictions)? (¶10d)

_____	_____
-------	-------

Prepared by: _____

Date: _____

Reviewed by: _____

Date: _____

EXHIBIT 3: ACCOUNTING FOR A SALE OF EXISTING RECEIVABLES AS A TRUE SALE

Transaction	Reference	Debit (Credit)		Increase (Decrease)		
		Statement of Net Assets	SRECNA	Statement of Cash Flows	Reconciliation of Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
1. Receive \$990 in cash and a \$20 note receivable upon sale of \$1,000 of existing University MOP loans that are classified as Investments.	Cash	\$990		Proceeds from sale of investments (investing activity)	\$990	N/A—Not an operating transaction. This is an investing transaction.
	Note receivable-sale of receivables-investments ¹	\$20				
	AGC 160618 (Current)					
	AGC 161370 (Noncurrent)					
	Investments (MOP loan)	(\$1,000)				
	AGC 161140					
	A/R STIP Invest. Sales	\$1,000				
	AGC 160562					
	A/R STIP Invst. Sales-Settlements					
	AGC 160563	(\$1,000)				
			(Gain) loss on sale of investments		(\$10)	
			AGC 208281			
OR						
Receive \$990 in cash and a \$20 note receivable upon sale of \$1,000 of existing University receivables that are <u>not</u> classified as investments.	Cash	\$990		Collections of loans from student and employees (operating activity)	\$990	
	Note receivable-sale of Receivables-sale ²	\$20				Accounts receivable (\$20)
	AGC 160614 (Current)					
	AGC 161330 (Noncurrent)					
	Notes receivable-collection	(\$1,000)				Accounts receivable \$1,000
	AGC 160612 (Current)					
	AGC 161320 (Noncurrent)					
			Other operating revenues ³			Operating income (loss) \$10
			Gain on sale of receivable	(\$10)		
			AGC 208300			

Note: Example is for sale of current funds notes receivable; new codes for sales of loan funds receivables can be found in Exhibit 8.

- (1) New notes receivable-sale of receivables-investments will be recorded in noncurrent assets (AGC 161370) and the current portion will be reclassified to current assets (AGC 160618) at year end.
- (2) New notes receivable-sale of receivables-sale will be recorded in noncurrent assets (AGC 161330) and the current portion will be reclassified to current assets (AGC 160614) at year end.
- (3) Other operating expenses if a loss on sale (OC7630).

EXHIBIT 4: ACCOUNTING FOR A SALE OF EXISTING RECEIVABLES AS A COLLATERALIZED BORROWING

Transaction	Reference	Debit (Credit)		Increase (Decrease)		Reconciliation of Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
		Statement of Net Assets	SRECNA	Statement of Cash Flows			
1. Receive \$990 in cash and a \$20 note receivable upon sale of \$1,000 of existing University MOP loans that are classified as Investments, or other receivables that are not classified as investments, and record collateralized borrowing obligation.		Cash	\$990			Proceeds from collateralized borrowing obligations (other noncapital financing) \$1,010	N/A—Not an operating transaction. This is a noncapital financing transaction.
		Note receivable-sale of receivable-collateralized borrowing ¹	\$20			Collections of loans from student and employees (operating activity) (\$20)	Accounts receivable (\$20)
		AGC 160615 (Current)					
		AGC 161340 (Noncurrent)					
2. Collect \$50 of pledged receivables (non-investment receivables in this example), including \$5 interest income.		Cash	\$50			Collections of loans from student and employees (operating activity) \$45	Accounts receivable \$45
		Notes receivable-collection	(\$45)			Other receipts/payments (operating activity) \$5	Operating income (loss) \$5
		AGC 160612 (Current)		Other operating revenue	(\$5)		
		AGC 161320 (Noncurrent)					
3. Remit \$50 payment to transferee.		Cash	(\$50)			Payments under collateralized borrowing obligations (other noncapital financing) (\$50)	N/A—Not an operating transaction. This is a noncapital financing transaction.
		Collateralized borrowing obligations-sale of receivables-payment ²	\$50				
		AGC 164762 (Current)					
4. Remit \$25 final payment to transferee that exceeds the collateral borrowing obligation.		Cash	(\$25)			Other receipts/payments (operating activity) (\$25)	Operating income (loss) (\$25)
				Other operating expense	\$25		
				OC 7640			

Note: Example is for sale of current funds notes receivable; new codes for sales of loan funds receivables can be found in Exhibit 8.

- (1) New notes receivable-sale of receivables-collateralized borrowing will be recorded in noncurrent assets (AGC 161340) and the current portion will be reclassified to current assets (AGC 160615) at year end.
- (2) New collateralized borrowing obligations-sale of receivables will be recorded in noncurrent liabilities (AGC 165571) and the current portion will be reclassified to current liabilities (AGC 164761) at year end. Payments during each fiscal year will be debited to AGC 164762 to correctly reflect the transaction in the financial statements and footnotes. After fiscal year end, the balance in AGC 164762 must be closed into AGC 164761 so that AGC 164762 reflects only current fiscal payments for collateralized borrowing obligations.

EXHIBIT 5: ACCOUNTING FOR A SALE OF FUTURE REVENUES AS A TRUE SALE

Transaction	Reference	Debit (Credit)		Increase (Decrease)			
		Statement of Net Assets	SRECNA	Statement of Cash Flows	Reconciliation of Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
1. Receive \$990 in cash and a \$20 note receivable upon sale of future University revenues. Defer revenue recognition.		Cash	\$990	Collections from sale of future revenues (other operating receipts)	\$990		
		Note receivable-sale of future revenues-sale ¹	\$20				
		AGC 160616 (Current) AGC 161350 (Noncurrent)				Accounts Receivable	(\$20)
2. Recognize deferred revenue using a systematic and rational method over the duration of the sale agreement.		Deferred revenue-sale of future revenue-earned ²	\$60	Source based upon proper classification of revenue sold (operating activity)	\$60		
		AGC 164360 (Current)				Other (other operating payments)	(\$60)
			Revenue (dependent on the proper classification of revenue sold)			(\$60)	Deferred revenue
		AGC various			Operating income (loss)	\$60	
OR							
Receive \$990 in cash and a \$20 note receivable upon sale of future University revenues. Recognize all revenue at time of sale.		Cash	\$990	Source based upon proper classification of revenue sold (operating activity)	\$1,010		
		Note receivable-sale of future revenues-sale ¹	\$20				
		AGC 160616 (Current) AGC 161350 (Noncurrent)				Other (other operating payments)	(\$20)
		Revenue (dependent on the proper classification of revenue sold)	(\$1,010)		Operating income (loss)	\$1,010	
		AGC various					

Note: Example is for sale of current funds future revenues; new codes for sales of loan funds future revenues can be found in Exhibit 8.

- (1) New notes receivable-sale of future revenues will be recorded in noncurrent assets (AGC 161350) and the current portion will be reclassified to current assets (AGC 160616) at year end.
- (2) New deferred revenue-sale of future revenues will be recorded in noncurrent assets (AGC 165580) and the current portion will be reclassified to current assets (AGC 164350) at year end. The reclassification of revenue earned during each fiscal year will be debited to AGC 164360 to correctly reflect the transaction in the financial statements and footnotes. After fiscal year end, the balance in AGC 164360 must be closed into AGC 164350 so that AGC 164360 reflects only current fiscal year reclassification of revenue earned.

EXHIBIT 6: ACCOUNTING FOR A SALE OF FUTURE REVENUES AS A COLLATERALIZED BORROWING

Transaction	Reference	Debit (Credit)		Increase (Decrease)			
		Statement of Net Assets	SRECNA	Statement of Cash Flows	Reconciliation of Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
1. Receive \$990 in cash and a \$20 note receivable upon sale of future University revenues and record a collateralized borrowing obligation.		Cash	\$990	Proceeds from collateralized borrowing obligations (other noncapital financing) \$990	N/A—Not an operating transaction. This is a noncapital financing transaction.		
		Note receivable-sale of future revenues-collateralized borrowing ¹	\$20			Accounts receivable	(\$20)
		AGC 160617 (Current)					
		AGC 161360 (Noncurrent)					
		Collateralized borrowing obligation-sale of future revenues ²	(\$1,010)				
		AGC 164763 (Current)					
		AGC 165573 (Noncurrent)					
2. Record \$50 pledged revenue as revenue in accordance with the recognition and measurement criteria appropriate to the specific type of revenue pledged.		Cash	\$50	Revenue (classification dependent on type) (operating activity) \$50	Operating income (loss) \$50		
			Revenue (dependent on the proper classification of revenue sold) AGC various			(\$50)	
3. Remit \$50 payment to transferee.		Cash	(\$50)	Payments under collateralized borrowing obligations (other noncapital financing) (\$50)	N/A—Not an operating transaction. This is a noncapital financing transaction.		
		Collateralized borrowing obligation-sale of future revenue-payment ²	\$50				
		AGC 164764 (Current)					

Note: Example is for sale of current funds future revenues; new codes for sales of loan funds future revenues can be found in Exhibit 8.

- (1) New notes receivable-sale of future revenues-collateralized borrowing will be recorded in noncurrent assets (AGC 161360) and the current portion will be reclassified to current assets (AGC 160617) at year end.
- (2) New collateralized borrowing obligation-sale of future revenues will be recorded in noncurrent liabilities (AGC 165573) and the current portion will be reclassified to current liabilities (AGC 164763) at year end. Payments during each fiscal year will be debited to AGC 164764 to correctly reflect the transaction in the financial statements and footnotes. After fiscal year end, the balance in AGC 164764 must be closed into AGC 164763 so that AGC 164764 reflects only current fiscal payments for collateralized borrowing obligations.

Exhibit 7: Summary of Existing Transactions Requiring Review Under the Provisions of GASB Statement No. 48

UCOP	Berkeley		San Francisco			Davis			Los Angeles			
	Campus	Foundation	Campus	Medical Center	Foundation	Campus	Medical Center	Foundation	Campus	Medical Center	Foundation	
1. Sale of accounts receivable: Has your location entered into a transaction where you have exchanged your interest in the collection of existing accounts receivable for an immediate cash payment...sale of receivables?	(1)	No	No	(2)	No	No	No	No	No	(3)	No	No
2. Purchase of accounts receivable: Has your location entered into a transaction where you have purchased from an unrelated third-party their interest in the collection of their existing accounts receivable for an immediate cash payment?	No	No	No	No	No	No	No	No	No	(4)	No	No
3. Sale of future revenues: Has your location entered into a transaction where you have exchanged your interest in the generation and collection of future revenues for an immediate cash payment?	No	No	No	(2)	No	No	No	No	No	(5)	No	No
4. Purchase of future revenues: Has your location entered into a transaction where you purchased from an unrelated third-party their interest in their generation and collection of future revenues for an immediate cash payment?	No	No	No	No	No	No	No	No	No	(6)	No	No
5. Sale or donation of any assets: Has your location entered into any transaction with another campus or campus foundation where you have been on either end of a sale or donation of any assets at a value other than carrying value?	No	No	No	No	No	No	No	No	No	No	No	No
6. Sale or donation of any future revenues: Has your location entered into any transaction with another campus or campus foundation where you have been on either end of a sale or donation of any future revenues at a value other than carrying value?	No	No	No	No	No	No	No	No	No	No	No	No
7. Pledge of future revenues: Other than for external debt, are you aware of any situations on your campus where revenues are pledged as security for repayment thereby making a portion of the revenues legally and contractually unavailable for other purposes?	No	No	No	No	No	No	No	No	No	(7)	No	No

(1) At UCOP we have completed several transactions over the past several years where UC has sold its interest in groups of MOP and SHLP loans to seven financial institutions for a cash payment under purchase, sale and servicing agreements. UC continues to service the loans by collecting monthly loan payments via payroll deduction and receipt of cash and remitting payments to the buyers monthly.

(2) San Francisco - Possible future sale of patent revenue/receivable to an outside agency. Also School as Lender transactions - 2 loans processed to "qualify" for the program, but campus does not think it will participate.

(3) Los Angeles. The sale of Law School Stafford Loans to Wachovia Bank approximately one week after we own and disburse them. The School As Lender program was initiated in FY06, however, I believe we did not sell any loan until FY07 as the initial loans made in April 2006 were from internal resources and we made to maintain our eligibility for the program. We have since contracted with a third party to make and sell the loans on our behalf. We are trying to obtain a full set of the contractual documents so we can review this program more carefully.

(4) Los Angeles. In the same transaction noted above (3), we borrow the funds from Wachovia Bank using a line of credit, loan those funds to students, then sell them back to Wachovia Bank within one week's time.

(5) Los Angeles. The future revenues would be the interest and principle of the funds loaned to students for Stafford Loans. We sell the loans to Wachovia prior to much interest accrual or any collection requirements.

(6) Los Angeles. We purchase from Wachovia their interest in the generation and collection of future revenues related to Stafford Loan fund. Later we sell them back.

(7) Los Angeles. I'm not certain whether the contract states that we pledge our receivables as part of the loan from Wachovia Bank or not. I would need to see the contract.

Exhibit 7: Summary of Existing Transactions Requiring Review Under the Provisions of GASB Statement No. 48

	Riverside		San Diego			Santa Cruz		Santa Barbara		Irvine			Merced	
	Campus	Foundation	Campus	Medical Center	Foundation	Campus	Foundation	Campus	Foundation	Campus	Medical Center	Foundation	Campus	Foundation
1. Sale of accounts receivable: Has your location entered into a transaction where you have exchanged your interest in the collection of existing accounts receivable for an immediate cash payment...sale of receivables?	No	No	No	No	No	No	No	No	No	No	No	No	No	No
2. Purchase of accounts receivable: Has your location entered into a transaction where you have purchased from an unrelated third-party their interest in the collection of their existing accounts receivable for an immediate cash payment?	No	No	No	No	No	No	No	No	No	No	No	No	No	No
3. Sale of future revenues: Has your location entered into a transaction where you have exchanged your interest in the generation and collection of future revenues for an immediate cash payment?	No	No	No	No	No	No	No	No	No	No	No	No	No	No
4. Purchase of future revenues: Has your location entered into a transaction where you purchased from an unrelated third-party their interest in their generation and collection of future revenues for an immediate cash payment?	No	No	No	No	No	No	No	No	No	No	No	No	No	No
5. Sale or donation of any assets: Has your location entered into any transaction with another campus or campus foundation where you have been on either end of a sale or donation of any assets at a value other than carrying value?	No	No	No	No	No	No	No	No	No	No	No	No	No	No
6. Sale or donation of any future revenues: Has your location entered into any transaction with another campus or campus foundation where you have been on either end of a sale or donation of any future revenues at a value other than carrying value?	No	No	No	No	No	No	No	No	No	No	No	No	No	No
7. Pledge of future revenues: Other than for external debt, are you aware of any situations on your campus where revenues are pledged as security for repayment thereby making a portion of the revenues legally and contractually unavailable for other purposes?	No	No	No	No	No	No	No	No	No	No	No	No	No	No

(1) At UCOP we have completed several transactions over the past several years where UC has sold its interest in groups of MOP and SHLP loans to seven financial institutions for a cash payment under purchase, sale and servicing agreements. UC continues to service the loans by collecting monthly loan payments via payroll deduction and receipt of cash and remitting payments to the buyers monthly.

(2) San Francisco - Possible future sale of patent revenue/receivable to an outside agency. Also School as Lender transactions - 2 loans processed to "qualify" for the program, but campus does not think it will participate.

(3) Los Angeles. The sale of Law School Stafford Loans to Wachovia Bank approximately one week after we own and disburse them. The School As Lender program was initiated in FY06, however, I believe we did not sell any loans until FY07 as the initial loans made in April 2006 were from internal resources and we made to maintain our eligibility for the program. We have since contracted with a third party to make and sell the loans on our behalf. We are trying to obtain a full set of the contractual documents so we can review this program more carefully.

(4) Los Angeles. In the same transaction noted above (3), we borrow the funds from Wachovia Bank using a line of credit, loan those funds to students, then sell them back to Wachovia Bank within one week's time.

(5) Los Angeles. The future revenues would be the interest and principle of the funds loaned to students for Stafford Loans. We sell the loans to Wachovia prior to much interest accrual or any collection requirements.

(6) Los Angeles. We purchase from Wachovia their interest in the generation and collection of future revenues related to Stafford Loan fund. Later we sell them back.

(7) Los Angeles. I'm not certain whether the contract states that we pledge our receivables as part of the loan from Wachovia Bank or not. I would need to see the contract.

EXHIBIT 8: NEW ACCOUNTING CODES TO BE ESTABLISHED

	<u>CURRENT</u>	<u>LOAN</u>
CA-Note receivable – sale of receivable – sale	AGC160614	AGC140614
CA-Note receivable – sale of receivable – collateralized borrowing	AGC160615	AGC140615
CA-Note receivable – sale of future revenues – sale	AGC160616	AGC140616
CA-Note receivable – sale of future revenues – collateralized borrowing	AGC160617	AGC140617
CA-Note receivable – sale of receivable – investment	AGC160618	N/A
NA-Note receivable – sale of receivable – sale	AGC161330	AGC141330
NA-Note receivable – sale of receivable – collateralized borrowing	AGC161340	AGC141340
NA-Note receivable – sale of future revenues – sale	AGC161350	AGC141350
NA-Note receivable – sale of future revenues – collateralized borrowing	AGC161360	AGC141360
NA-Note receivable – sale of receivable – investment	AGC161370	N/A
CL-Deferred revenue – sale of future revenues	AGC164350	AGC144350
CL-Deferred revenue – sale of future revenues – earned	AGC164360	AGC144360
CL-Collateralized borrowing obligations – sale of receivables	AGC164761	AGC144761
CL-Collateralized borrowing obligations – sale of receivables – payt.	AGC164762	AGC144762
CL-Collateralized borrowing obligations – sale of future revenue	AGC164763	AGC144763
CL-Collateralized borrowing obligations – sale of future revenue – payt.	AGC164764	AGC144764
NL-Collateralized borrowing obligations – sale of receivables	AGC165571	AGC145571
NL-Collateralized borrowing obligations – sale of future revenue	AGC165573	AGC145573
NL-Deferred revenue – sale of future revenues	AGC165580	AGC145580
Operating Revenue – Gain on sale of receivables	AGC208300	TC8026
Operating Expense – Loss on sale of receivables	OC7630	TC8123
Operating Expense – Payment of pledged receivables ¹	OC7640	TC8124

¹ Object code to be used to reflect any collections of pledged receivables and revenue subsequently paid to the transferee after the collateralized borrowing obligation has been liquidated.

GASB Statement No. 48

Exhibit 9 - Footnote Disclosure Report: Collateralized Borrowing Activity

Debit (Credit)

	A	B	C	D	E
	Beginning Balance	New Obligations	Reclassification from Long-Term (Calculated Number)	Payments To Buyer	Ending Balance
<u>Collateralized Borrowing Activity-Sale of Receivables</u>					
<u>Current Portion</u>					
CL- Collateralized Borrowing Obligations-Sale of Receivables	(1)				
Payments to Buyer				164762 + 144762	
Reclassification From Long Term			(5)		
CL- Collateralized Borrowing Obligations-Sale of Receivables					(1)
Current Activity	Sum		Sum	Sum	Sum
<u>Noncurrent Portion</u>					
NL- Collateralized Borrowing Obligations-Sale of Receivables	165571 + 145571				
New Collateralized Mortgage Obligations		(3)			
Reclassification To Current			(6)		
NL- Collateralized Borrowing Obligations-Sale of Receivables					165571 + 145571
Noncurrent Activity	Sum	Sum	Sum	Sum	Sum
Total Collateralized Borrowing Activity-Sale of Receivables	Sum	Sum	Sum	Sum	Sum
<u>Collateralized Borrowing Activity-Sale of Future Revenue</u>					
<u>Current Portion</u>					
CL- Collateralized Borrowing Obligations-Sale of Future Revenue	(2)				
Payments to Buyer				164764 + 144764	
Reclassification From Long Term			(7)		
CL- Collateralized Borrowing Obligations-Sale of Future Revenue					(2)
Current Activity	Sum		Sum	Sum	Sum
<u>Noncurrent Portion</u>					
NL- Collateralized Borrowing Obligations-Sale of Future Revenue	165573 + 145573				
New Collateralized Mortgage Obligations		(4)			
Reclassification To Current			(8)		
NL- Collateralized Borrowing Obligations-Sale of Future Revenue					165573 + 145573
Noncurrent Activity	Sum	Sum	Sum	Sum	Sum
Total Collateralized Borrowing Activity-Sale of Future Revenue	Sum	Sum	Sum	Sum	Sum

(1) 164761 + 164762 + 144761 + 144762

(2) 164763 + 164764 + 144763 + 144764

(3) Calculated: E(165571 + 145571) - D(164762 + 144762) - A(165571 + 145571)

(4) Calculated: E(165573 + 145573) - D(164764 + 144764) - A(165573 + 145573)

(5) Calculated: E(164761 + 164762 + 144761 + 144762) - D(164762 + 144762) - A(164761 + 164762 + 144761 + 144762)

(6) Calculated: E(165571 + 145571) - B(Note 3 above) - A(165571 + 145571)

(7) Calculated: E(164763 + 164764 + 144763 + 144764) - D(164764 + 144764) - A(164763 + 164764 + 144763 + 144764)

(8) Calculated: E(165573 + 145573) - B(Note 4 above) - A(165573 + 145573)

GASB Statement No. 48

Exhibit 9 - Footnote Disclosure Report: Deferred Revenue Activity-Sale of Future Revenue

Debit (Credit)

	A	B	C	D	E
	<u>Beginning Balance</u>	<u>New Deferrals</u>	<u>Reclassification from Long-Term (Calculated Number)</u>	<u>Recognition of Revenue</u>	<u>Ending Balance</u>
<u>Deferred Revenue Activity-Sale of Future Revenue</u>					
<u>Current Portion</u>					
CL- Deferred Revenue-Sale of Future Revenue	164350 + 144350			164360 + 144360	
Recognition of Deferred Revenue			(1)		
CL- Deferred Revenue-Sale of Future Revenue					164350 + 144350
Current Activity	<u>Sum</u>	<u>Sum</u>	<u>Sum</u>	<u>Sum</u>	<u>Sum</u>
<u>Noncurrent Portion</u>					
NL- Deferred Revenue-Sale of Future Revenue	165580 + 145580				
New Deferred Revenue		(2)			
Reclassification To Current			(3)		
NL- Deferred Revenue-Sale of Future Revenue					165580 + 145580
Noncurrent Activity	<u>Sum</u>	<u>Sum</u>	<u>Sum</u>	<u>Sum</u>	<u>Sum</u>
Total Deferred Revenue-Sale of Future Revenue	<u>Sum</u>	<u>Sum</u>	<u>Sum</u>	<u>Sum</u>	<u>Sum</u>

(1) Calculated: $E(164350 + 144350) - D(164360 + 144360) - A(164350 + 144350)$

(2) Calculated: $E(165580 + 145580) - D(164360 + 144360) - A(165580 + 145580)$

(3) Calculated: $E(165580 + 145580) - B(\text{Note 2 above}) - A(165580 + 145580)$

EXHIBIT 10: EXAMPLE OF AN ASSESSMENT OF A TRANSACTION TO SELL CERTAIN SPECIFIC RECEIVABLES

A significant aspect of the assessment is the degree to which the University retains or relinquishes to the transferee control over the existing receivables. A transaction in which the University receives or is entitled to proceeds in exchange for the future cash flows from existing receivables should be reported as a sale if the University's continuing involvement with these receivables is effectively terminated (§6).

The determination of whether the University's continuing involvement is effectively terminated is dependent upon an evaluation of the following criteria. A "yes" answer to any one of the questions indicates the University's continuing involvement is not effectively terminated and, therefore, the transaction should not be reported as a sale.

Transaction Assessed: Sale of MOP Loans to Coastal Bank: July 25, 2002 Sale - \$102.1 Million

Conclusion: True Sale: UC's continuing involvement is effectively terminated.

PSS = Purchase, Sale and Servicing Agreement (C.1 in binder)

	<u>Yes/No</u>	<u>Source Document/ Specific Reference</u>
<i>Questions 1–3 outline the criteria to determine whether the substance of the transaction is indicative of whether the sale has been substantively consummated.</i>		
1. Is the transferee's ability to subsequently sell or pledge the receivables significantly limited by the constraints imposed by the University, either in the transfer agreement or through other means? (§6a and §41)	No, there are not any significant limitations on Coastal Bank's ability to sell or pledge cash flows.	<ul style="list-style-type: none"> ▪ PSS–Section 2.1, Sale and Conveyance of Mortgage Loans ▪ PSS,–Section 2.2.1, Possession of Mortgage Loans ▪ PSS–Section 2.7, Transfer of Mortgage Loans ▪ PSS–Exhibit 6, Assignment, Assumption and Recognition Agreement

	<i>Yes/No</i>	<i>Source Document/ Specific Reference</i>
<p>2. Does the University have the option or ability to <u>unilaterally</u> substitute for or reacquire specific accounts from among the receivables transferred? <i>Note:</i> The ability or obligation to substitute for defective accounts, at the option of the transferee, would not violate this criterion. For example, accounts that do not possess the characteristics stipulated in a transfer agreement may be replaced by ones that do possess those traits. In addition, insignificant “clean-up” calls by which the University may reacquire remaining uncollected accounts when the outstanding secured debt reaches a specified minimum balance would likewise not violate this criterion. (§6b)</p>	No, substitution or repurchase can be made only in the event of a “Defective Mortgage Loan” where the value has been materially and adversely affected, or in the unlikely event that UC agrees, at the borrower’s request, to modify a loan document in a manner that is not approved by the purchaser. UC’s repurchase rights are insignificant in that they are conditioned by an administrative efficiency when the unpaid balance is less than 5% of the initial value, or when UC agrees to a modification to a loan document not approved by the purchaser.	<ul style="list-style-type: none"> ▪ PSS–Section 3.3, Cure, Substitution and Repurchase ▪ PSS–Section 2.6, Defective Documents ▪ PSS–Section 5.1.3, Consent of Purchaser ▪ PSS–Section 11.2.2, Termination Upon Repurchase by the Seller of All Mortgage Loans ▪ PSS–Section 12.7, Waivers and Amendments, Noncontractual Remedies; Presentation of Remedies
<p>3. Is the sale agreement cancellable by either party, including cancellation through payment of a lump sum or transfer of other assets or rights? (§6c)</p>	No, other than for the insignificant “clean up” call by UC.	<ul style="list-style-type: none"> ▪ PSS–Section 11.2, Termination Upon Repurchase by the Seller of All Mortgage Loans ▪ PSS–Section 12.7, Waivers and Amendments, Noncontractual Remedies; Presentation of Remedies
<p><i>Questions 4–6 outline the criteria to determine whether the transferee has a separate legal standing from the University.</i></p>		
<p>4. Is the separate organization’s legal entity the same as the University’s legal entity? (§7a)</p>	No.	<ul style="list-style-type: none"> ▪ 1st paragraph of PSS ▪ PSS–Section 4.1.1, Due Organization
<p>5. Do the corporate powers of the transferee organization fail to distinguish it as being legally separate from the University? (§7a)</p>	No.	<ul style="list-style-type: none"> ▪ PSS–Section 4.1.1, Due Organization
<p>6. Do the corporate powers of the transferee organization preclude it from being sued in its own name without recourse to the University, or preclude it from the right to buy or sell, lease or mortgage property without the University’s approval? (§7a)</p>	No.	<ul style="list-style-type: none"> ▪ Coastal Bank is entirely unrelated to UC.

Question 7 outlines the criteria to determine whether the receivables are isolated from the University should it become the subject of a bankruptcy proceeding.

	<i>Yes/No</i>	<i>Source Document/ Specific Reference</i>
<p>7. Do provisions in the transfer agreement (or provided elsewhere in statutes, charters or other governing documents or agreements) fail to protect the transferee from the claims of the University’s creditors? (§7c)</p> <p><i>If “yes” to <u>any one</u> of Questions 1–7, the University has continuing involvement and the transaction must be recorded as a collateralized borrowing, not a true sale of the receivables.</i></p> <p><i>If “no” to <u>all</u> of Questions 1–7, continue to assess whether the receivables are isolated from the University.</i></p> <p><i>Generally, banking arrangements should eliminate access by the University or its component units to the cash generated by collecting the receivables. Access is eliminated when payments on individual accounts are made directly to a custodial account maintained for the benefit of the transferee.</i></p>	No.	<ul style="list-style-type: none"> ▪ PSS–Section X, Default
<p>8. Are payments on individual accounts made through the University (and, presumably, then remitted to the transferee), as opposed to payments on individual accounts made directly to a custodial account maintained for the benefit of the transferee? (§7b)</p> <p><i>If the answer to <u>all</u> of Questions 1–7 and Question 8 is “no,” then the transaction must be reported as a true sale of receivables and not a collateralized borrowing.</i></p> <p><i>If the answer to Question 8 is “yes” it tentatively leads to a presumption of a collateralized borrowing that may be mitigated by “no” answers to the following questions. It may be that the University continues to service the accounts, or obligors may misdirect their payments to the University rather than the transferee. In this circumstance, access to the cash generated by collecting the receivables is deemed to be eliminated if <u>all</u> of the answers to the following questions are “no.”</i></p>	Yes, UC continues to service and administer the loans without a custodial account.	<ul style="list-style-type: none"> ▪ PSS–Section V, Administration and Servicing of Mortgage Loans

	<i>Yes/No</i>	<i>Source Document/ Specific Reference</i>
<p>9. Does the University have an obligation to advance amounts to the transferee before it collects equivalent amounts from the underlying individual accounts? <i>Note:</i> The payments to the transferee should be made only from the resources generated by the specific receivables rather than from the University's own resources. (§7b(1))</p>	<p>No, only in the case of unusual and insignificant situations for delinquent taxes or insurance for which UC is reimbursed or for up to two delinquent monthly loan payments. This is not an advance to transferee, but maintains the property in a lien-free condition, pending disposition and recovery in accordance with the agreement. Non-substantial advances are required on the 5th day of the month for any payments due on the first of the month, but not yet received. Since over 95% of the borrowers use automatic payroll deduction features, such advances are limited to non-payroll deduction borrowers that total 4.73% of all monthly P&I payments. Advances for this small population of borrowers average 3.3 days and are required due to the timing of ACH or other cash payment mechanisms. Section 6.4 specifies that such advances may cease if it is determined by UC that they would be non-recoverable.</p>	<ul style="list-style-type: none"> ▪ PSS–Section 5.1.3.1 ▪ PSS–Section 5.6, Payment of Taxes, Insurance and Other Charges; Maintenance of Primary Insurance Policies; Collections There Under ▪ PSS–Section 6.3, Monthly Advances by Seller ▪ PSS–Section 6.4, Non Recoverable Servicing Advances
<p>10. Is the cash collected by the University on behalf of the transferee remitted to the transferee after significant delay? (§7b(2))</p>	<p>No, remittance within 2 business days. The 2 days reflects the minimum time necessary to properly account for all funds collected and to process the transfer wires.</p>	<ul style="list-style-type: none"> ▪ PSS–Section 6.1, Remittances ▪ PSS–Section 1.1, Defined Terms (see "Remittance Date")

	<i>Yes/No</i>	<i>Source Document/ Specific Reference</i>
11. Are earnings on invested collections held by the University instead of passed on to the transferee? (¶7b(2))	No, any funds received by UC from any source—monthly payments, principal prepayments, payoffs, etc.—must be remitted to purchaser within 2 business days if, in the aggregate, the amounts exceeds \$10,000. Therefore, any earnings on invested collections are de-minimis, although there may be amounts earned from this administrative practice as a result of UC’s cash management practices.	<ul style="list-style-type: none"> ▪ PSS—Section 6.1, Remittances ▪ PSS—Section 1.1, Defined Terms (see “Remittance Date”)
12. Do the University’s general ledger and accounts receivable sub-ledger fail to consider sale proceeds from the transferee as satisfaction of individual accounts? (¶7b(3))	No. The Office of Loan Programs maintains a separate servicing accounting sub-system that clearly labels the ownership of each receivable at the individual loan level.	<ul style="list-style-type: none"> ▪ PSS—Section II, Sale and Conveyance of Mortgage Loans; Possession of Mortgage Loan Documents, Books and Records; Delivery of Mortgage Loan Documents ▪ PSS—Section 2.5, Books and Records ▪ PSS—Section VI, Reports, Remittances, Advances ▪ PSS—Schedule M-1
13. Does the University fail to indicate in its records which accounts have been transferred and which collections pertain to those accounts? (¶7b(3))	No. The Office of Loan Programs maintains a separate servicing accounting sub-system that clearly labels the ownership of each receivable at the individual loan level. Separate reporting and account reconciliations are provided to each purchaser of the loans pursuant to the PSS.	<ul style="list-style-type: none"> ▪ PSS—Section II, Sale and Conveyance of Mortgage Loans; Possession of Mortgage Loan Documents, Books and Records; Delivery of Mortgage Loan Documents ▪ PSS—Section 2.5, Books and Records ▪ PSS—Section VI, Reports, Remittances, Advances ▪ PSS—Schedule M-1

If the answers to Questions 1–7 and 9–13 are “no,” notwithstanding the fact that the answer to Question 8 is “yes,” then the transaction must be recorded as a true sale, not as a collateralized borrowing.

Prepared by: _____ **Date:** _____

Reviewed by: _____ **Date:** _____

Preparer read the Purchase, Sale and Servicing Agreement, documented the pertinent contract clauses and concluded on the appropriate treatment for financial reporting purposes.

Reviewer, confirmed the comments and references above based upon involvement in the negotiation of the terms and conditions of the contract.