

FOR ILLUSTRATION ONLY

Overview –

What follow are three examples of transactions that are the subject of Governmental Accounting Standards Board (GASB) *Codification of Governmental Accounting and Financial Reporting 2019-2020* (Cod.) Section (Sec.) S20, “Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues” (GASB Statement No. 48, as amended). They were developed as a companion to an article in the June 2020 issue of *Government Finance Review* entitled “Gentle reminders for times that are not.”

The assumptions, methods of estimation, and other factors regarding the recognition and measurement of various aspects of the transactions are not necessarily the only acceptable or the best options.

Example #1: Pledged receivables

Assume the following:

- \$200,000 of specific property tax liens receivable are identified by The City of Example (the City). The City’s policy is to recognize all property tax liens with deferred inflows of resources. Revenue is recognized when receivables are collected and the amount available, based on 60 days of post-year-end collections, is recognized at each fiscal year end.
- The City receives \$100,000 on May 1, 2020, from the First Federal Bank of Example (the Bank) in exchange for all collections on the identified receivables up to \$100,000 plus interest, which accrues at an annual rate of 5%.
- The City continues to collect receivables and deposits the funds into its central treasury. On a monthly basis, the City remits proceeds of the specific receivables to the Bank, until principal and interest is paid-off.
- The City’s fiscal year ends June 30th.
- The City must substitute new receivables of equal or higher value for any receivables that turn out not to be legally enforceable, but may not substitute receivables at will.
- Assume the following total collections and remittances for the fiscals years:

FYE	Collections	Remittance	Interest	Principal				
6/30/2020	11,910	11,910	810	11,100				
6/30/2021	63,900	63,900	3,009	60,891				
6/30/2022	50,940	28,431	423	28,009	[Repayment completed January 2022]			
			4,241	100,000				

Month Ended	Collections	Month Ended	Collections	Month Ended	Collections
31-May-20	6,000	31-May-21	4,920	31-May-22	3,840
30-Jun-20	5,910	30-Jun-21	4,830	30-Jun-22	3,750
31-Jul-20	5,820	31-Jul-21	4,740	31-Jul-22	3,660
31-Aug-20	5,730	31-Aug-21	4,650	31-Aug-22	3,570
30-Sep-20	5,640	30-Sep-21	4,560	30-Sep-22	3,480
31-Oct-20	5,550	31-Oct-21	4,470	31-Oct-22	3,390
30-Nov-20	5,460	30-Nov-21	4,380	30-Nov-22	3,300
31-Dec-20	5,370	31-Dec-21	4,290	31-Dec-22	3,210

31-Jan-21	5,280	31-Jan-22	4,200	31-Jan-23	3,120
28-Feb-21	5,190	28-Feb-22	4,110	28-Feb-23	3,030
31-Mar-21	5,100	31-Mar-22	4,020	31-Mar-23	2,940
30-Apr-21	5,010	30-Apr-22	3,930	30-Apr-23	2,850

The transaction does not meet the criteria to be treated as a sale because the City will continue to collect on receivables and will deposit amounts into its central treasury account. When the City makes monthly payments to the Bank, it will pay only the amount actually collected, not any interest that had been earned by investing the funds between collection and remittance.

Example 2: Receivables sold to newly-created component unit of the reporting government

Assume the following:

- \$200,000 of specific property tax liens receivable are identified by The City of Example (the City). Collections of \$150,000 of the liens had been considered unavailable and recognized with deferred inflows of resources.
- The identified liens have an associated \$10,000 allowance for doubtful accounts, for cases in which the lien value may exceed the market value of the property.
- The City establishes a new legal entity, the Example Tax Lien Corporation (the Corporation), and enters into an enforceable agreement to sell the property tax liens to the Corporation, effective May 1, 2020, in exchange for (1) the net proceeds of bonds payable that will be issued by the Corporation on that date and (2) a residual certificate giving the City the right to all remaining assets of the Corporation upon satisfaction of all of the Corporation's obligations.
- This residual certificate is recorded at fair value, which is estimated to be \$15,000 at the date of the sale. The value of this residual interest is reported as a deferred inflow of resources by the City.
- By law, sold receivables automatically incur an immediate 10% penalty, and accrue interest at 1% per month or any part thereof, beginning on the first day of the first month after the sale. Penalties and interest immediately increase the lien value.
- The Corporation issues \$190,000 of bonds secured by the purchased receivables. Issuance costs are \$5,000 and the bonds sell at par value. The bonds pay interest at a rate of 5% and may be retired at the end of any month (in units of \$1,000).
- The Corporation hires a servicing company which will service all debt, including foreclosure proceedings. The servicer will be entitled to 10% of all collections, until the bonds are paid-off (at which time the City will resume servicing remaining liens which it obtains via its residual certificate).
- All other requirements for the transaction to be accounted for as a sale are met.
- Assume the following collections:

Month Ended	Collections	Month Ended	Collections	Month Ended	Collections
31-May-20	\$ 6,666.00	31-May-21	\$10,854.00	31-May-22	\$ 6,799.45
30-Jun-20	6,631.67	30-Jun-21	11,417.73	30-Jun-22	6,026.83
31-Jul-20	6,595.99	31-Jul-21	11,672.38	31-Jul-22	3,793.81
31-Aug-20	6,558.93	31-Aug-21	11,415.05	31-Aug-22	3,038.97
30-Sep-20	6,520.47	30-Sep-21	12,975.24	30-Sep-22	1,401.23
31-Oct-20	7,064.42	31-Oct-21	11,539.23	31-Oct-22	1,107.43
30-Nov-20	6,439.24	30-Nov-21	8,478.51	30-Nov-22	1,497.46
31-Dec-20	8,778.72	31-Dec-21	8,308.27	31-Dec-22	1,220.56
31-Jan-21	10,322.20	31-Jan-22	7,388.19	31-Jan-23	902.27
28-Feb-21	9,951.54	28-Feb-22	5,202.91	28-Feb-23	-

31-Mar-21	10,676.95	31-Mar-22	6,679.31	31-Mar-23	-
30-Apr-21	11,167.96	30-Apr-22	7,584.13	30-Apr-23	865.62

Example 3: Revenue sold to newly created-component unit of the reporting government

Assume the following:

- Like all counties in its state, The County of Example (the County) is guaranteed by the state's constitution to be granted at least \$30 per resident per year in unrestricted state aid.
- The state aid is based on a state population study made as of January 1st of each year, and the state makes annual payments to all counties prior to the March 31st end of the state's fiscal year.
- Counties in the state are not legally precluded from transferring the rights to their state aid.
- The County had a population of 50,000 residents as of January 1, 2020. The population has consistently grown at a rate of slightly over 1% per year, but is assumed to be flat for purposes of estimating future revenue flows.
- The County establishes a new legal entity, County of Example State Aid Securitizations, Inc. (CESAS), and enters into an enforceable agreement to sell the County's full annual state aid payment to CESAS for 15 years, effective July 1, 2020, in exchange for (1) the net proceeds – after costs of issuance and the funding of a one-year debt service reserve – of bonds payable that will be issued by the Corporation on that date, (2) a residual certificate giving the County the rights to (a) any portion of the annual state aid that is not needed to fund debt service or the debt service reserve, which is passed through to the County each year, and (b) all remaining assets of the CESAS upon satisfaction of all of the CESAS's obligations. The affairs of CESAS are administered by employees of the County, thus CESAS has no administrative or other operating costs. CESAS follows governmental rather than BTA accounting.
- On July 1, 2020, CESAS issues \$12 million of bonds paying 5% annually and secured by the future state aid revenue. Debt service is \$1.25 million per year, and a debt service reserve with \$1.25 million is required to be created upon issuance. If not needed, the reserve will be released to the County upon final payment of bonds, in accordance with the County's residual certificate. Issuance costs are \$250,000 and the bonds sell at par value.
- All other requirements for the transaction to be accounted for as a sale are met.
- Assume the following projected and actual January 1st population and March state aid payments:

[TABLE ON NEXT PAGE]

	<u>Projected</u>		<u>Actual</u>	
<u>County Fiscal Year Ended June 30th</u>	<u>Population at January 1st of Year</u>	<u>State Per-Capital Aid @ \$30</u>	<u>Population at January 1st of Year</u>	<u>State Per-Capital Aid @ \$30</u>
2020	50,000		50,000	
2021	50,000	\$1,500,000	50,500	\$1,515,000
2022	50,000	1,500,000	51,005	1,530,150
2023	50,000	1,500,000	51,515	1,545,450
2024	50,000	1,500,000	52,030	1,560,900
2025	50,000	1,500,000	52,550	1,576,500
2026	50,000	1,500,000	53,075	1,592,250
2027	50,000	1,500,000	53,605	1,608,150
2028	50,000	1,500,000	54,141	1,624,230
2029	50,000	1,500,000	54,682	1,640,460
2030	50,000	1,500,000	55,228	1,656,840
2031	50,000	1,500,000	55,780	1,673,400
2032	50,000	1,500,000	56,337	1,690,110
2033	50,000	1,500,000	56,900	1,707,000
2034	50,000	1,500,000	57,469	1,724,070
2035	50,000	1,500,000	58,043	1,741,290