BACKGROUND

GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees, was adopted by the University beginning July 1, 2013. This Statement establishes standards for recording a liability when a government extends a nonexchange financial guarantee for the obligations of another government, a not-for-profit organization, a private entity or an individual without receiving equal or nearly equal value in exchange. As part of the nonexchange financial guarantee, the government commits to indemnify the holder of the obligation if the entity of individual that issued the obligation does not fulfill its payment requirements. This standard requires the government that extends a nonexchange financial guarantee to record a liability when qualitative factors and historical data indicate that it is more likely than not that the government will be required to make a payment on the guarantee.

DEFINE ISSUES

The University must determine whether GASB Statement No. 70 changes any existing financial reporting and disclosure requirements for any of the University’s financial reporting entities.
AUTHORITATIVE GUIDANCE AND APPROACH

GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees, requires that the University records a liability when it extends a nonexchange financial guarantee for the obligations of another government, a not-for-profit organization, a private entity or an individual without receiving equal or nearly equal value in exchange.

GASB 70, paragraph 4, states “a nonexchange financial guarantee is a guarantee of an obligation of a legally separate entity or individual, including a blended or discretely presented component unit, which requires the guarantor to indemnify a third-party obligation holder under specified conditions.” The legally separate entities may include any other governments, nonprofit organizations, private entities, or individuals.

A nonexchange financial guarantee occurs when the University guarantees to make payments on the obligations (bond, loan, contract, agreement, etc.) of a legally separate entity to the holder of that obligation, but generally receives little or no compensation in return. In general, the University agrees to make payments to the holder of the obligation, if the entity that issued the obligation is unable to fulfill its obligation or in the event of default.

IMPLEMENTATION

GASB 70 requires a guarantor government to recognize a liability when qualitative or historical factors indicate that it is more likely than not that the guarantor government will actually be required to make payments as a result of the guarantee agreement. “More likely than not” means that there is a greater than 50% possibility that the government will be required to make payments based on qualitative or historical factors.

Qualitative factors include: A legally separate entity initiates bankruptcy proceedings, incurs financial reorganization, is party to a breach of contract, or experiences significant financial difficulty or a significant loss of revenue sources.

Historical factors include: Past experience with similar transactions and/or similar entities.

Steps taken to identify items that are in scope related to GASB 70:

1. Office of the General Counsel (OGC) at Office of the President conducted a search of liabilities, guarantees, joint ventures, obligations, third-party liabilities dating back to 1970. OGC also contacted the Secretary of the Regents’ to conduct a ten-year search to identify such items that could be in scope related to GASB 70.

Upon review with Corporate Accounting, no information relevant to GASB 70 was brought to OGC’s attention.
2. OGC at Office of the President also inquired of Campus Counsel at all locations whether they are aware of any transactions that should be considered when applying GASB 70.

No information relevant to GASB 70 was brought to OGC’s attention by Campus Counsel.

3. The Campus controllers, Medical Center controllers and the Foundations were also informed of the GASB 70 requirements and notified the Systemwide Controller of any transaction that should be considered when applying GASB 70. Each of the following campus controllers performed the following:
   - Reviewed accounts payable activity to identify any payments that might be covered by this standard.
   - Inquire of others on campus, as appropriate, whether they are aware of any agreements that exist or payments that are being made for these types of arrangements.

Based on the steps identified above, below is a list of agreements as of June 30, 2014 that the University have entered into, to provide or receive nonexchange financial guarantees of an obligation to or from a legally separate entity (defined solely for this purpose as a separate government, not for-profit entity, for-profit entity, or individual).

<table>
<thead>
<tr>
<th>Type of Obligation</th>
<th>List all parties to the agreement by entity type</th>
<th>Description of nonexchange guarantee, legal authority and limits, length of time of the guarantee, and arrangements for recovery or repayment of payments</th>
<th>Guaranteed Amount as of 6/30/2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student loans</td>
<td>Haas School of Business at University of California, Berkeley, Deutsche Bank Trust Company</td>
<td>Risk-share loan programs for the Affiliated Loan Program for Students School Trust (ALPS) / Deutsche Bank Trust Company – guarantee by UC Berkeley Foundation, Eli Lilly Federal Credit Union. The payment delinquency rate for students with loans from these programs was very low and the estimated loss was less than $50k.</td>
<td>Limited to $250,000</td>
</tr>
</tbody>
</table>
We considered the history of the payments made on a nonexchange financial guarantee in which the legally separate entity defaulted on its obligation payments. No guarantees have a greater than 50% (more than likely) possibility that the University will be required to make payments related to the guarantee based on qualitative factors and/or historical factors.

**CONCLUSION:**

Implementation of GASB Statement No. 70 had no effect on the financial statements for the year ended June 30, 2014. We will continue to assess the impact to the financial statements by including a closing step during year end for campuses and foundations to identify any guarantee arrangements under GASB Statement No. 70.

| Student loans | Anderson Business School, University of California Los Angeles, Eli Lilly | Anderson Business School’s international loan program – one guaranteed loan program through Eli Lilly Federal Credit Union for international students. This program has been in existence since the 2010 academic year. Eli Lilly covers the first 15% of defaults calculated on original principal for each cohort year. | As of 6/30/14, defaulted loans for the 2013 cohort year was zero. Historical defaulted loans was $48,815 and $16,018 since inception. |