

Office of Statewide Reporting and Accounting Policy
State of Louisiana

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GOVERNOR

Division of Administration

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COMMISSIONER OF ADMINISTRATION



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OSRAP MEMORANDUM 18-24

TO: Fiscal Officers
All State Entities

FROM: Afranie Adomako, CPA
Director

SUBJECT: Implementation of Governmental Accounting Standards Board (GASB) Statement No. 81, *Irrevocable Split Interest Agreements* (Effective FY 2018)

In March 2016, GASB issued Statement No. 81 (GASB 81), *Irrevocable Split Interest Agreements*, designed to enhance the comparability of governmental financial statements by providing accounting and financial reporting guidance for irrevocable split-interest agreements in which a government is a beneficiary. GASB 81 also establishes accounting and financial reporting standards for irrevocable split-interest agreements created through trusts—or other legally enforceable agreements with characteristics that are equivalent to irrevocable split-interest agreements—in which a donor irrevocably transfers resources to an intermediary.

GASB 81 defines an **irrevocable split-interest agreement** as one type of split-interest agreement used by donors to provide resources to two or more beneficiaries, including governments. Under an irrevocable split-interest agreement, the donor does not reserve, or confer to another person, the right to terminate the agreement at will and have the donated resources returned to the donor or a third party. Irrevocable split-interest agreements can be created through trusts or other legally enforceable agreements with characteristics that are equivalent to irrevocable split-interest agreements. Examples of irrevocable split-interest agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

Irrevocable split-interest agreements typically have two components 1) **lead interest** - beneficial interest that confers the right to receive all or a portion of the benefits of resources during the term of a split-interest agreement; and 2) remainder interest - beneficial interest to confer the right to receive all or portion of the resources remaining at the end of a split-interest agreement's term.

Disbursements to the lead interest beneficiary can be pre-established as a specific amount (annuity) or as a variable amount such as a specific percentage of the fair value of the assets measured at each disbursement date (unitrust).

Irrevocable split-interest agreements can vary with respect to whether the intermediary, (trustee, fiscal agent, government, or any other legal or natural person that is holding and administering donated resources pursuant to a split-interest agreement which may or may not be required to be a third party) is required to be a 3rd party entity or not, the assignment of benefits, the term of the agreement, and other general provisions. For example, some donors require that the government that has a beneficial interest also serve as the intermediary in the irrevocable split-interest agreement. Irrevocable split-interest agreements can terminate after a period-certain term (for example, a specified number of years); a life-contingent term (upon the occurrence of a specified event, commonly the death of either the donor or the lead interest beneficiary); or a combination of both terms.

Per GASB 81 the reporting requirements for governments who are parties to irrevocable split-interest agreements is contingent upon how the agreement is structured with respect to intermediary, interest beneficiary requirements, and termination as follows:

1. Government is the Intermediary and the Remainder Interest Beneficiary

- Assets for resources received or receivable - assets should be measured in accordance with existing standards. Example: assets that meet the definition of an investment should be measured at fair value according to Statement No. 72, Fair Value Measurement and Application. Assets that meet the definition of an investment also should be remeasured and reported at fair value at each reporting date.
- A liability for the lead interest that is assigned to other beneficiaries - a liability representing the lead interest that has been assigned to other beneficiaries should be measured based on a settlement amount (the stream of payments that is expected to be provided to other beneficiaries). This measurement should be based on an established valuation technique that incorporates assumptions that reflect the specific provisions of the agreement. The assumptions that should be considered when measuring the amount recognized as the liability include (a) the payment provisions of the agreement, (b) the estimated rate of return of the assets, (c) the mortality rate (if the term is life-contingent), and (d) the discount rate if a present value technique is used. This amount should be re-measured based on changes in assumptions used each year.
- A deferred inflow of resources for the government's unconditional remainder interest - changes in assets should be recognized as an increase or a decrease in the related deferred inflow of resources. At termination of the agreement, the deferral should be recognized as revenue and any remaining liability is a gain or revenue in governmental funds.

2. Government is the Intermediary and the Lead Interest Beneficiary

- Assets for resources received or receivable – assets should be measured in accordance with existing standards. Example: assets that meet the definition of an

investment should be measured at fair value according to Statement No. 72, Fair Value Measurement and Application. Assets that meet the definition of an investment also should be re-measured and reported at fair value at each reporting date.

- A deferred inflow of resources for the government's unconditional lead interest - a deferred inflow of resources representing the government's unconditional lead interest should be measured based on a settlement amount (the stream of payments that is expected to be provided to the government beneficiary). This measurement should be based on an established valuation technique that incorporates assumptions that reflect the specific provisions of the agreement. The assumptions that should be considered when measuring the amount recognized as the deferred inflow of resources include (a) the payment provisions of the agreement, (b) the estimated rate of return of the assets, (c) the mortality rate (if the term is life-contingent), and (d) the discount rate if a present value technique is used. The amount of revenue that the government recognizes as a benefit for the period should decrease the deferral and the deferral should be re-measured each year. Any remaining deferral should be eliminated upon termination of the agreement.
- A liability for the remainder interest that is assigned to other beneficiaries - at the termination of the irrevocable split-interest agreement, when the assets are disbursed to other beneficiaries, the liability should be eliminated.

3. Third Party Intermediary and the Government is the Remainder Interest Beneficiary

- Government should recognize an asset for the **beneficial interest** (the right to a portion of the benefits from donated resources as a result of an irrevocable split-interest agreement).
- Government should recognize revenue for the beneficial interest applicable to the reporting period as stipulated in the irrevocable split-interest agreement. Also, the government should reduce the beneficial interest asset for the same amount for the reporting period.

4. Third Party Intermediary and the Government is the Lead Interest Beneficiary

- Government should recognize revenue for the beneficial interest at the termination of the agreement, as stipulated in the irrevocable split-interest agreement.
- Government should eliminate the beneficial interest asset and the related deferred inflow of resources upon termination of agreement.

The proceeding reporting requirements are applicable to all irrevocable split-interest agreements as outlined in GASB 81, except for life-contingent agreements known as life-interest in real estate. Under these agreements, the donor or parties specified by the donor at the inception of the agreement retains the right to use the asset, such as a building. The reporting requirements for these agreements depends on whether the asset is recognized as an investment or as a capital asset as follows:

1. Real estate is recognized as an investment

- If the asset meets the definition of an investment as set forth in paragraph 64 of Statement 72, it initially should be measured according to the provisions of Statement 72 under both the current financial resources measurement focus and the economic resources measurement focus.
- Changes in the fair value of the investment should be recognized as an increase or a decrease in the related deferred inflow of resources.
- A liability should be recognized if a government assumes a legal obligation to sacrifice financial resources pursuant to the provisions of the life-interest in real estate agreement, such as for insurance, maintenance, or repairs of the asset. If a liability is recognized, it should be reduced as the government satisfies the obligations.
- A related deferred inflow of resources should be recognized in the amount of the difference between the asset and the liability (if a liability is recognized).
- Upon termination of the agreement, revenue should be recognized for the deferred inflow of resources, and for any remaining portion of the liability.
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2. Real estate asset is recognized as a capital asset

- If the asset is recognized as a capital asset, the asset should be measured at acquisition value under the economic resource measurement focus only.
- A liability should be recognized if a government assumes a legal obligation to sacrifice financial resources pursuant to the provisions of the life-interest in real estate agreement, such as for insurance, maintenance, or repairs of the asset. If a liability is recognized, it should be reduced as the government satisfies the obligations.
- A related deferred inflow of resources should be recognized in the amount of the difference between the asset and the liability (if a liability is recognized).
- A systematic and rational allocation of the asset's initial acquisition value should reduce the carrying value of the asset and the deferred inflow of resources throughout the life of the agreement.
- At the termination of the agreement, revenue should be recognized for the deferred inflow of resources, and for any remaining portion of the liability.

Prior to GASB 81, governments were to recognize the difference between the asset and the liability to other beneficiaries as a gift revenue, these changes are now reported as a deferred inflow of resources. Governments should now recognize revenue only for the beneficial interest applicable to the reporting period as stipulated in the irrevocable split-interest agreement and reduce the beneficial interest asset for the same amount for the reporting period.

GASB 81 is effective for periods beginning after December 15, 2016. The AFR Portal will be updated to capture the information required to be reported and disclosed under this statement for the 2018 fiscal year end. GASB 81 can be found on [GASB's website](#) and you may contact Ms. Kimberly Dwin at (225) 219-4445 or via email at Kimberly.Dwin@la.gov with any questions.