

**OSC Financial Reporting Update – FY2018**  
**GASB 81 Appendix A**  
**Accounting for Common Scenarios**

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**NOTE:** The below information is intended to provide a high-level overview of the accounting treatment of several common irrevocable split-interest agreement arrangements. The sample entries provided below apply to agreements entered into during FY 2018 or later. Keep in mind that agreements entered into before FY 2018 require a restatement, if material. Please consult GASB 81 as well as the details of your specific agreement to determine the appropriate treatment for your individual situation.

**I. Government is Intermediary and Remainder Interest Beneficiary**

**A. Overview**

When the government holds and administers the donated resources, the government is the intermediary. When the government is both the intermediary and a remainder interest beneficiary, the government should recognize an asset, liability, and deferred inflow of resources at the inception of the agreement.

- The donated resources received or receivable by the government should be measured in accordance with existing standards. For example, assets that meet the definition of an investment under GASB Statement No. 72, *Fair Value Measurement and Application* (GASB 72), should generally be reported at fair value and remeasured at each reporting date, offsetting any changes against the related deferred inflow of resources.
- The liability represents the lead interest assigned to other beneficiaries and should be measured based on a settlement amount representing the stream of payments expected to be provided to those beneficiaries. The government should calculate the settlement amount using an established valuation technique that incorporates assumptions reflecting the specific provisions of the split-interest agreement. At each reporting date, the government must reevaluate those assumptions (e.g., the estimated rate of return on assets) and remeasure the liability, offsetting any changes against the deferred inflow of resources. Disbursements to other beneficiaries reduce this liability.
- The deferred inflow of resources represents the government's unconditional remainder interest and is initially calculated as the difference between the assets received and the lead interest liability. As the assets and lead interest (liability) are periodically remeasured over the term of the agreement, reciprocal adjustments are made to the remainder interest (deferred inflow of resources).
- At the termination of the agreement, the government will recognize the remaining deferred inflow of resources as revenue. Any remaining liability will be eliminated as a gain (nonoperating) in proprietary funds and as revenue in governmental funds.

**B. Sample Journal Entries**

Inception of agreement:

DR        Asset (for assets received/receivable)  
CR        Liability (for settlement amount of the lead interest assigned to other beneficiaries)  
CR        Deferred inflow\* (for the government’s unconditional remainder interest)

Subsequent reporting dates – as disbursements made to other beneficiaries during term of agreement:

DR        Liability (to reflect reduction in amount owed to other beneficiaries)  
CR        Asset (for assets disbursed)

Subsequent reporting dates – as asset and lead interest liability are adjusted:

DR/CR    Asset (to record change in FV, interest, and dividends)  
DR/CR    Liability (to adjust the settlement amount of the lead interest as assumptions change)  
DR/CR    Deferred inflow\* (to offset the net change in the asset and liability)

End of term:

DR        Liability (to eliminate any remaining balance)  
DR        Deferred inflow\* (the remainder interest is finally recognized)  
CR        Revenue/Gain\*\*

\* See new NCAS Account 229207 in Appendix B.

\*\* At the end of the term, both proprietary funds and governmental funds will recognize the deferred inflow as revenue. Governmental funds will also recognize the elimination of any liability as revenue; however, proprietary funds will recognize the elimination of any liability as a nonoperating gain (see new NCAS account 437550 in Appendix B).

**II. Government is Intermediary and Lead Interest Beneficiary**

**A. Overview**

When the government is both the intermediary and a lead interest beneficiary, the government should recognize an asset, liability, and deferred inflow of resources at the inception of the agreement.

- The donated resources received or receivable by the government should be measured in accordance with existing standards. For example, assets that meet the definition of an investment under GASB 72 should generally be reported at fair value and remeasured at each reporting date, offsetting any changes against the related liability.
- The deferred inflow of resources represents the government’s unconditional lead interest and should be measured based on a settlement amount representing the stream of payments expected to be provided to the government as a beneficiary. The

government should calculate the settlement amount using an established valuation technique that incorporates assumptions reflecting the specific provisions of the split-interest agreement. At each reporting date, the government must reevaluate those assumptions (e.g., the estimated rate of return on assets) and remeasure the deferred inflow of resources, offsetting any changes against the related liability. As the government becomes entitled to benefits over the term of the agreement, it will recognize revenue and decrease this deferred inflow of resources.

- The liability represents the remainder interest assigned to other beneficiaries and is initially calculated as the difference between the assets received and the lead interest deferred inflow of resources. As the assets and lead interest (deferred inflow of resources) are periodically remeasured over the term of the agreement, reciprocal adjustments are made to the remainder interest (liability).
- At the termination of the agreement, when the government disburses assets to the remainder interest beneficiaries, it will eliminate its liability and any remaining deferred inflow of resources.

## B. Sample Journal Entries

Inception of agreement:

DR	Asset (for assets received/receivable)
CR	Deferred inflow* (for settlement amount of the government's unconditional lead interest)
CR	Liability (for remainder interest assigned to other beneficiaries)

Subsequent reporting dates – as government becomes entitled to benefits during term of agreement:

DR	Deferred inflow* (to reduce government's lead interest)
CR	Revenue

Subsequent reporting dates – as asset and lead interest deferred inflow are adjusted:

DR/CR	Asset (to record change in FV, interest, and dividends)
DR/CR	Deferred inflow* (to adjust the settlement amount of the lead interest as assumptions change)
DR/CR	Liability (to offset the net change in the asset and deferred inflow)

End of term:

DR	Deferred Inflow* (to eliminate any remaining balance; i.e., to zero out lead interest)
CR	Liability (to offset adjustment to deferred inflow above; i.e., to "true up" the remainder interest (adjusting the lead interest requires an adjustment to the remainder interest))

DR	Liability (to eliminate remainder interest)
CR	Assets (for assets disbursed to other beneficiaries)

\* See new NCAS Account 229207 in Appendix B.

### **III. Comparison of the Two Scenarios**

The following statements apply whether the government intermediary holds the lead interest or the remainder interest.

- The government must first measure the lead interest. The remainder interest is then calculated by subtracting the lead interest from the donated assets.
  - $\text{Donated Assets} - \text{Lead Interest} = \text{Remainder Interest}$
- The government must remeasure the lead interest at each reporting period and offset resulting adjustments with corresponding adjustments to the remainder interest (whether that remainder interest is a liability or a deferred inflow of resources).
- The government should offset any changes in the donated asset (such as those resulting from interest, dividends, and changes in fair value) with corresponding adjustments to the remainder interest (whether that remainder interest is a liability or a deferred inflow of resources).
- The benefits assigned to other beneficiaries are always recognized as a liability.
  - If the government intermediary holds a lead interest, the remainder interest represents a liability.
  - If the government intermediary holds a remainder interest, the lead interest represents a liability.
- The government's benefit is always recorded as a deferred inflow of resources.
  - If the government intermediary holds a lead interest, the lead interest represents a deferred inflow of resources.
  - If the government intermediary holds a remainder interest, the remainder interest represents a deferred inflow of resources.

### **IV. Third Party is Intermediary and Government is Beneficiary**

#### **A. Overview**

When a third party, such as a trustee or fiscal agent, holds and administers the donated resources, the third party is the intermediary. In this situation, the government should recognize a beneficial interest asset and a deferred inflow of resources for these "funds held in trust by others" once it becomes aware of the agreement and has sufficient information to measure its beneficial interest. See paragraph 31 of GASB 81 for additional criteria.

- The government's beneficial interest meets the definition of a financial asset provided in paragraph 86 of GASB 72 and as such should be measured at fair value and remeasured at each reporting date. These periodic adjustments to the beneficial interest asset should be offset with corresponding adjustments to the related deferred inflow of resources.

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- If the government is the lead interest beneficiary, it will decrease its beneficial interest asset and its deferred inflow of resources as it receives benefits and recognizes revenue over the term of the agreement.
- If the government is the remainder interest beneficiary, it will recognize revenue and eliminate its beneficial interest asset and deferred inflow of resources at the termination of the agreement.

### B. Sample Journal Entries

Inception of agreement:

DR Beneficial interest asset\*  
CR Deferred inflow\*\*

Subsequent reporting dates – as beneficial interest is remeasured:

DR/CR Beneficial interest asset\* (as interest is remeasured)  
DR/CR Deferred inflow\*\* (to offset changes in beneficial interest asset)

Subsequent reporting dates – as government becomes entitled to benefits during the term of the agreement (only applies when government has a lead interest):

DR Deferred inflow\*\* (to eliminate balance as revenue is recognized)  
CR Revenue

DR Asset (for assets received or receivable from intermediary)  
CR Beneficial interest asset\* (to eliminate balance)

End of term – as government becomes entitled to benefits at the termination of the agreement (only applies when government has a remainder interest):

DR Deferred inflow\*\* (to eliminate balance as revenue is recognized)  
CR Revenue

DR Asset (for assets received or receivable from intermediary)  
CR Beneficial interest asset\* (to eliminate balance)

\* See new NCAS accounts 114910/124910 in Appendix B.

\*\* See new NCAS account 229207 in Appendix B.

### V. Government is Beneficiary of a Life-Interest in Real Estate

#### A. Overview

A life-interest in real estate is a type of life-contingent irrevocable split-interest agreement in which a donor transfers the deed and title associated with a property to a government but retains the right to use the property for the remainder of the donor's life. At the time of the donation, the government should classify the donated property as either an investment or a capital asset based on (a) the terms

of the agreement (including any donor-imposed restrictions) and (b) how management intends to use the property once the donor's rights expire. The government should also recognize a deferred inflow of resources equal to the difference between the asset and any liability assumed. The deferred inflow of resources represents the donor's retained right to use the property as well as the government's remainder interest.

- If the government classifies the property as an investment and it meets the definition of an investment in paragraph 64 of GASB 72, the investment initially should be reported at fair value with subsequent changes in that fair value offset against the related deferred inflow of resources.
- If the government classifies the property as a capital asset, the capital asset should be reported at acquisition value in the financial statements of proprietary funds and component units and in the government-wide statement of net position. (Capital assets are not reported in governmental fund financial statements.)
- A systematic and rational allocation of the capital asset's initial acquisition value should reduce both the carrying value of the asset and the associated deferred inflow of resources throughout the life of the agreement. Note that the government should not recognize depreciation expense during the term of the agreement. (A life-interest in real estate does not have an "income statement effect" until the termination of the agreement.) However, the government should reduce the carrying value of the capital asset throughout its entire useful life (both during the agreement and after termination). To accomplish this, the government should record accumulated depreciation during the term of the agreement with a corresponding reduction in the associated deferred inflow. (By crediting accumulated depreciation rather than directly crediting the capital asset, the government preserves the original acquisition value of the capital asset for record keeping purposes.) After the termination of the agreement, the government should begin recognizing depreciation expense. Therefore, for every reporting period during the term of the agreement, there will be a reconciling item between (a) the government's depreciation expense and (b) the increase in its accumulated depreciation.
- Whether the government recognizes an investment or a capital asset, it should also recognize a liability for any legal obligations assumed as part of the agreement (e.g., insurance, repairs, and maintenance). This liability will be reduced as the related obligations are satisfied.
- Whether the government recognizes an investment or a capital asset, at the termination of the agreement, the government will recognize revenue and eliminate its deferred inflow of resources and any remaining liability.

### **B1. Sample Journal Entries – Donated Property Classified as an Investment**

Inception of agreement:

DR	Asset (investment asset at FV)
CR	Liability (for any obligations assumed such as insurance, repairs, and maintenance)
CR	Deferred inflow* (for donor's retained right to use the property and for the government's remainder interest)

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Subsequent reporting dates – as asset and deferred inflow are adjusted:

DR/CR     Asset (to reflect changes in FV of investment)  
DR/CR     Deferred inflow\* (to offset changes in the FV of the investment)

Subsequent reporting dates – as obligations are satisfied:

DR            Liability (as insurance, repairs, maintenance, etc. is paid)  
CR            Cash

End of term:

DR            Deferred inflow\*  
CR            Revenue

\* See new NCAS Account 229207 in Appendix B.

### **B1. Sample Journal Entries – Donated Property Classified as a Capital Asset (only applies to proprietary fund and government-wide financial statements)**

DR            Asset (capital asset at acquisition value)  
CR            Liability (for any obligations assumed such as insurance, repairs, and maintenance)  
CR            Deferred inflow\* (for donor's retained right to use the property and for the government's remainder interest)

Subsequent reporting dates – as government reduces carrying value of asset:

DR            Deferred inflow\*  
CR            Accumulated depreciation

Subsequent reporting dates – as obligations are satisfied:

DR            Liability (as insurance, repairs, maintenance, etc. is paid)  
CR            Cash

End of term:

DR            Deferred inflow\*  
CR            Revenue

After end of term (begin depreciating capital asset):

DR            Depreciation expense  
CR            Accumulated depreciation

\* See new NCAS Account 229207 in Appendix B.