



GASB 81 Split Interest Agreement where Third Party is Intermediary* Checklist

Creation Date:	
Matter Name:	
Trustee Name:	
Maturity Date (either date or event):	
Description of University's Beneficial Interest (\$ or %):	

Step 1: Complete the questions below¹. IF ANY GASB 81 QUESTIONS BELOW ARE MARKED 'FALSE', THEN CRITERIA ARE NOT MET – DO NOT RECORD.

	False	True
The donor is <i>NOT</i> the Trustee, nor does the donor control the 3 rd party intermediary.	<input type="checkbox"/> The donor IS the Trustee or <i>controls</i> the 3 rd party intermediary.	<input type="checkbox"/>
The split interest agreement is irrevocable and the donor has not granted variance power to a third party.	<input type="checkbox"/> The agreement is revocable and variance power has been granted to a third party.	<input type="checkbox"/>
This is not a perpetual trust	<input type="checkbox"/> This IS a perpetual trust.	<input type="checkbox"/>
The University and at least one other beneficiary are specified by name as a beneficiary in a legally enforceable document underlying the donation.	<input type="checkbox"/> The University is NOT named as a beneficiary in the underlying legal documents.	<input type="checkbox"/>
The value of the University's interest can be ascertained or estimated.	<input type="checkbox"/> The value of the University's interest cannot be reasonably estimated.	<input type="checkbox"/>
The pledged assets are not already owned or administered by the University. ²	<input type="checkbox"/> The University is the trustee or owns the asset.	<input type="checkbox"/>

¹ If documentation is unavailable to support that the University has unconditional beneficial interest, donor has not granted variance power, or trust is irrevocable, then assume that these conditions are NOT met and consider that these are not applicable under GASB 81.

² If the University (i.e., The Regents of the University of California or UC Foundation) is the intermediary and a beneficiary of the split-interest agreement, then recognize the trust (including life interest in real estate) in accordance with GASB 81, paragraphs 10-28. Although beneficial interests in perpetual trusts, pledges and permanent endowments may have characteristics similar to beneficial interests in irrevocable split-interest agreements, the determination of whether and how those resources should be recognized is not covered under GASB 81.



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If the criteria above are met, the University would recognize an asset, initially measured at fair value, for its beneficial interest held and administered by a third party. A deferred inflow of resources would be recorded in the same amount as the asset, which would be remeasured at fair value at each reporting period. The fair value changes would be reflected as an increase or decrease in the related deferred inflow of resources.

Step 2 – Determine whether subject under GASB 81:

Based on the above analysis and indicators, the split-interest agreement should be recognized as:

- a. Irrevocable LEAD interest
- b. Irrevocable REMAINDER interest
- c. Irrevocable LEAD and REMAINDER interest
- d. Life interest in real estate
- e. NOT APPLICABLE UNDER GASB 81 – DO NOT RECORD (See Step 1) – Record as revenue when recognized under GASB 33
 - Closed matter – gift fulfilled
 - Contingent – revocable trust, donor
 - Perpetual trust

CONTINUE ONLY IF STEP 2A TO 2D IS APPLICABLE

Step 3 – Gather valuation information if subject under GASB 81³

a. Asset value

June 30, 2016 Values – needed if comparative presentation is used on primary statements for MD&A purposes

Source: (as of date)

June 30, 2017 Values

Source: (as of date)

June 30, 2018 Values

Source: (as of date)

³ The outside trustee should provide UC with periodic financial reporting for the trust that details financial activity as well as the fair market value of the trust's assets. Since June 30 values may not be readily available, use the most current information available.



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b. UC interest (%) or \$

For present value calculation considerations:

c. Anticipated annual revenue stream

d. Beneficiaries date of birth

Step 4 – Calculate value to record irrevocable split-interest agreement

Part I. Document assumptions used to calculate value (if any):

Beneficiary information

- a. Trust beneficiary identified as “income beneficiaries” indicate that beneficiary can invade principal
- b. When beneficiary’s date of birth is unknown, the date of birth of child / issue is ___ years after parent’s date of birth
- c. When beneficiary’s date of birth is unknown and we cannot assume date of birth as described in b., the date of birth of child / issue is ___ the date of the trust creation.
- d. Other – please describe: _____

Beneficial interest calculation

- a. If beneficiary has access to principal, with no limitation indicated, the principal will be depleted prior to maturity. Thus, no amount will be recorded for GASB 81 purposes.
- b. If fair values under Step 2 are unavailable (either never available to us or we have not received an updated value in the last 5 years), no amount will be recorded for GASB 81 purposes.
- c. Stream of income applied to determine asset
- d. GEP (or other pool) gross-up to determine trust asset
- e. Other – please describe: _____

Present value of trust’s liability at June 30:

- Rate of return: _____% (Example: based on assumptions used for other UC administered gifts)
- Mortality table: 2012 IAR Mortality table

Part II. CALCULATION DETAILS:

Calculate the present value of the trust liability, which is the present value of the trust payments to be made until the trust’s expected termination date) then subtract from the current asset value determined in Step 3.



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Example:

Step 3 asset value at June 30, 2017:	\$500,000
Less: Present value of liability from Step 4 based on 2012 IAR mortality tables:	<u>(\$410,000)</u>
Equals estimated fair value at June 30, 2017:	\$90,000

Step 5 – Record journal entries for implementing GASB 81 (initial entry)

Applicable for irrevocable lead interest (2a), remainder interest (2b), lead and remainder interest (2c):

Dr. Beneficial interest in irrevocable split-interest agreement (long-term asset)

Cr. Deferred inflow of resources – Irrevocable split interest agreements (outside held trust)

Applicable for LIFE INTEREST IN REAL ESTATE agreements only

Dr. Investment OR capital asset

Cr. Obligations under life income agreements

Cr. Deferred inflow of resources – irrevocable split interest agreements (outside held trust)

Comments:

Prepared by:	Approved by:
Date Prepared:	Date Approved:



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ADDENDUM - AFTER YEAR 1 IMPLEMENTATION OF GASB 81

The beneficial interest asset initially measured (step 5 above) should be measured at fair value and remeasured at fair value at each financial reporting date. Changes in the fair value of the beneficial interest asset should be recognized as an increase or decrease in the related deferred inflow of resources.

Step 1: Identify any new information that has become available to determine if previous assessment or categorization has changed.

Comments:

Step 2: Obtain valuation information and update assumptions previously made as of the financial reporting date.

Comments:

Step 3: Calculate value to record for the financial reporting period

Step 4: Record journal entries

Irrevocable LEAD interest

Dr. Cash / receivable (other asset)

Dr. Deferred inflows of resources – irrevocable split interest agreement (outside held trust)

Cr. Revenue

Cr. Beneficial interest in irrevocable split-interest agreement (long-term asset)

To recognize revenue applicable to reporting period as stipulated in the agreement

Irrevocable REMAINDER interest

Dr (if reduction in asset) Deferred inflows of resources – irrevocable split interest agreement (outside held trust)

Cr. (if reduction in asset) Beneficial interest in irrevocable split-interest agreement (long-term asset)



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ONLY AT TERMINATION:

Dr. Cash / receivable (other asset)

Dr. Deferred inflows of resources – irrevocable split interest agreement (outside held trust)

 Cr. Revenue

 Cr. Beneficial interest in irrevocable split-interest agreement (long-term asset)

To recognize revenue applicable at termination as stipulated in the agreement and eliminate beneficial interest

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Date Prepared:	Date Approved:



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Excerpts from GASB 81 for Reference:

Beneficial Interests

29. A beneficial interest is the right to a portion of the benefits from donated resources pursuant to an irrevocable split-interest agreement in which the donor enters into a trust—or other legally enforceable agreement with characteristics that are equivalent to irrevocable split-interest agreements—and transfers the resources to an intermediary. When a third party is the intermediary, a government shares beneficial interests with at least one other beneficiary.

Recognition

30. If a third party is the intermediary of an irrevocable split-interest agreement, a government should recognize an asset and a deferred inflow of resources when the government becomes aware of the agreement and has sufficient information to measure the beneficial interest, provided the criteria in paragraph 31 are met.

Asset Recognition Criteria

31. Assets should be recognized for beneficial interests that meet *all* of the following criteria:

- a. The government is specified by name as beneficiary in the legal document underlying the donation.
- b. The donation agreement is irrevocable.
- c. The donor has not granted variance power to the intermediary with respect to the donated resources.
- d. The donor does not control the intermediary, such that the actions of the intermediary are not influenced by the donor beyond the specified stipulations of the agreement.
- e. The irrevocable split-interest agreement establishes a legally enforceable right for the government's benefit (an unconditional beneficial interest).

Measurement

32. The beneficial interest asset initially should be measured at fair value and remeasured at fair value at each financial reporting date. Changes in the fair value of the beneficial interest asset also should be recognized as an increase or a decrease in the related deferred inflow of resources.

33. If a government is the lead interest beneficiary, the 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.

34. If a government is the remainder interest beneficiary, the government should recognize revenue for the beneficial interest at the termination of the agreement, as stipulated in the irrevocable split-interest agreement. Also, at the termination of the agreement, the beneficial interest asset and the related deferred inflow of resources should be eliminated.

Definition of Split-interest agreement

An agreement in which the donor enters into a trust or other legally enforceable agreement (which characteristics that are equivalent to a split-interest agreement) under which the donor transfers resources to an intermediary to administer for the benefit of at least two beneficiaries, one of which could be a government.

Asset Recognition

B29. The question of whether assets should be recognized when a donor transfers resources pursuant to an irrevocable split-interest agreement to a third party to be administered for the benefit of a government is complex because the government does not have custody of (is not holding or administering) the underlying resources. Paragraph 12 of Concepts Statement 4 states that "control of an asset is the ability of the government to utilize the



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resource's present service capacity and to determine the nature and manner of use of the present service capacity embodied in the resource." Therefore, to recognize the beneficial interests as assets, the government specified as beneficiary of an irrevocable split-interest agreement will need to demonstrate control over the resources' present service capacity.

Control

B30. The Board believes that in order for a government to establish that it has control over a beneficial interest, the government should first determine that the underlying assets have been placed beyond the control of the donor and that the beneficial interest is not subject to modifications. Paragraph 13 of Concepts Statement 4 states that "control of the present service capacity embodied in an asset generally arises from contractual rights or legal ownership." The Board believes that a government, pursuant to an irrevocable split-interest agreement, has an enforceable right over its beneficial interests. Therefore, the Board concluded that beneficial interests should meet the criteria in paragraph 31 of this Statement to demonstrate control over the resources.