August 28, 2015

Director of Research and Technical Activities
Project No. 3-26E
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To Whom It May Concern:

We appreciate the opportunity to respond to the exposure draft of the Governmental Accounting Standards Board (GASB) for the proposed statement: Accounting and Financial Reporting for Irrevocable Split-Interest Agreements. In general, we agree with the Board’s views on the recognition and measurement of irrevocable split-interest agreements. However, we do have additional comments for consideration.

We question the Board’s decision in paragraph 27 to recognize a capital asset for life-interests in real estate at the time of donation in that, in some circumstances, the government may not have a right to use or benefit from the asset until the end of the donor’s life. We believe a capital asset should only be recognized if there is present service capacity. The Board references GASB 60, paragraph 51 as a basis for its conclusions for accounting for the donor’s right to use the asset, but we believe service concession arrangements are not necessarily comparable to irrevocable split-interest agreements involving life-interest in real estate. In service concession arrangements, an asset involved in the agreement typically has present service capacity in the services it is used to provide or in the revenue it generates and it is often difficult to quantify an associated obligation to allow an operator access to the asset. In a donated life-interest in real estate, however, the terms of the agreement may vary significantly and may not result in present service capacity to the government until the end of the donor’s life.

In paragraph 28, the Board states that a liability should be recognized if a government sacrifices financial resources for the insurance, maintenance, or repairs of the donated asset. GASB Concept Statement 4 – Elements of Financial Statements provides in paragraph 23 that, “Generally, commitments to provide services or to acquire assets in the future do not result in liabilities at the time of the commitment.” It further provides that an example of liabilities arising from nonexchange transactions is when a government engages in exchange transactions for goods or services that fulfill the nonexchange commitment. Based on this guidance, we question
whether commitments to pay specified costs included in an agreement associated with a donated asset constitute present obligations to a government.

We also believe there may be instances in which a government may not be able to readily determine a reasonable estimate of the future insurance, maintenance, or repairs of a donated asset if the government is required to pay all or a portion of those costs. As a result, we believe the Board should provide additional guidance on how a government should recognize obligations which are not readily determinable.

We do not agree with the Board’s decision in paragraph 29 to recognize revenue in a systematic and rational manner over the estimated term of the agreement as a reduction to the deferred inflow associated with the right retained by the donor to use the property. We believe that, in some circumstances, the government may not have a right to use or benefit from the asset until the end of the donor’s life, which essentially equates to a donor time requirement. We believe a government should not recognize revenue until the associated asset is available to the government.

Finally, in B6 of the ‘Basis for Conclusions’, the Board explains that voluntary nonexchange transactions, such as endowments, are explicitly excluded from the scope of this Statement. However, there is no explicit differentiation of irrevocable split-interest agreements from similar voluntary nonexchange arrangements, such as endowments. We suggest the Board consider adjusting the ‘Scope and Applicability of This Statement’ to not only define examples of split interest agreements, but to also more explicitly exclude other beneficial interest arrangements which have similar characteristics.

We appreciate the efforts of the Governmental Accounting Standards Board and the opportunity to provide our comments. Should you have any questions or need additional information concerning our response, please contact Zach Borgerding or me at (804) 225-3350.

Sincerely,

Martha S. Mavredes
Auditor of Public Accounts