INTRODUCTION AND BACKGROUND

The primary objectives of the Irrevocable Charitable Trusts pre-agenda research are (1) to identify the prevalence and types of irrevocable charitable trusts encountered in the government environment, (2) to examine relevant literature from other standards setters, (3) to understand what information about irrevocable charitable trusts is available currently in financial statements, and (4) to determine what information about irrevocable charitable trusts is considered necessary by users of financial statements. To achieve these objectives, the project staff conducted the following research activities:

- Reviewed relevant GASB literature as well as literature from other standards-setting bodies
- Reviewed technical inquires received by the GASB and Financial Accounting Standards Board (FASB) related to irrevocable charitable trusts
- Examined annual financial reports from higher education institutions
- Solicited feedback from financial statement users through a survey sent to 270 individuals identified as those focused on the healthcare and higher education sectors
- Solicited feedback from preparers of financial statements through a survey distributed with the assistance of certain organizations on the Governmental Accounting Standards Advisory Council (GASAC).
Four sections follow. The first provides a summary of the relevant GASB literature as well as literature from other standards-setting bodies. The second provides the key research questions that the research was intended to answer. The third section provides an overview of the approach to the study and the methodologies employed, as well as the limitations of the research design. The final section presents the results of the research and the project staff’s analysis of those results.

I. LITERATURE REVIEW

The project staff examined relevant literature from the FASB and the discussion that follows summarizes the approach taken by the FASB for accounting and financial reporting for irrevocable charitable trusts. This review also addresses how the FASB defines an asset, as this is essential to understanding the context for the guidance. The project staff also searched for guidance related to irrevocable charitable trusts in the literature of the Federal Accounting Standards Advisory Board (FASAB), the International Accounting Standards Board (IASB) and the International Public Sector Accounting Standards Board (IPSASB), but was unable to identify guidance directly related to this topic. However, the discussion that follows also includes guidance from the IPSASB related to nonexchange transactions that potentially has some relevance to this topic.

The final portion of this section provides the GASB literature relevant to accounting and financial reporting for irrevocable charitable trusts. The present guidance leads to the conclusion that governments should not record assets and revenue related to irrevocable charitable trusts until the government has received the assets.

In addition to reviewing guidance from these standards-setting bodies, the project staff also reviewed nonauthoritative industry guidance. The most significant sources of guidance in this area were (1) the American Institute of Certified Public Accountants’ (AICPA) Audit and Accounting Guide: Not-for-Profit Entities, which contains a chapter dedicated to split-interest agreements and beneficial interest in trusts; and (2) the National Association of College and University School Board Officials’ (NACUBO) Financial Accounting and Reporting Manual, which provides guidance for both public and private institutions on accounting for split-interest agreements. These
nonauthoritative sources provide more detailed guidance on applying the relevant authoritative accounting principles.

**FASB Literature**

*Definition of an Asset*

Paragraph 25 of FASB Concepts Statement No. 6, *Elements of Financial Statements*, defines assets as “probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events.”

*Guidance Relevant to Irrevocable Charitable Trusts*

FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made* (ASC 958-605), establishes accounting standards for the recognition of contributions (voluntary nonreciprocal transfers) for organizations that act as donor or donee. The standard requires that there be “sufficient evidence in the form of verifiable documentation that a promise was made and received” to recognize the transaction. “Contributions received shall be recognized as revenues or gains in the period received and as assets, decreases of liabilities or expenses, depending on the form of the benefit received.” Paragraphs 14 and 15 in FASB Statement 116 also provide guidance for the treatment of donor-imposed restrictions:

...Contributions with donor-imposed restrictions shall be reported as restricted support; however, donor-restricted contributions whose restriction are met in the same reporting period may be reported as unrestricted support provided that the organization reports consistently from period to period and discloses its accounting policy. Restricted support increases permanently restricted net assets or temporarily restricted net assets. Contributions without donor-imposed restrictions shall be reported as unrestricted support that increases unrestricted net assets.

Receipts of unconditional promises to give with payments due in future periods shall be reported as restricted support unless explicit donor stipulations or circumstances surrounding the receipt of the promise make clear that the donor intended it to be used to support activities of the current period. ...

FASB Statement No. 136, *Transfers of Assets to a Non-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others* (ASC 958-605),
establishes accounting standards for organizations that act as agents, intermediaries, and beneficiaries in the transfer of assets. The pronouncement requires that a specified beneficiary of a contribution made to a recipient entity recognize its rights to the assets when the donor does not have the ability to redirect the assets to another beneficiary and does not grant the recipient entity variance power. Variance power is defined as “the unilateral power to redirect the use of the transferred assets to another beneficiary. A donor explicitly grants variance power if the recipient entity's unilateral power to redirect the use of the assets is explicitly referred to in the instrument transferring the assets. Unilateral power means that the recipient entity can override the donor’s instructions without approval from the donor, specified beneficiary, or any other interested party.”

If the beneficiary and the recipient organization are financially interrelated, the recipient organization (not a trustee) “shall recognize a contribution received when it receives assets (financial or nonfinancial) from the donor that are specified for the beneficiary.” “The beneficiary shall recognize its interest in the net assets of the recipient organization and adjust that interest for its share of the change in net assets of the recipient organization.”

If the beneficiary and the recipient organizations are not financially interrelated and the recipient is an intermediary or an agent of the donor (not a trustee), the recipient organization recognizes its liability to the beneficiary along with the financial assets contributed, at fair market value. The standards permit (but do not require) the recipient to recognize nonfinancial assets.

The beneficiary that has an unconditional right to receive the assets “shall recognize that beneficial interest—measuring and subsequently remeasuring it at fair value—using a valuation technique such as the present value of the estimated expected future cash flows.” FASB Statement 136, paragraphs 15 and 16 further states (footnote omitted):

. . . In all other cases, the beneficiary shall recognize its rights to the assets held by a recipient organization as receivable and contribution revenue in accordance with the provisions of [FASB] Statement 116 for unconditional promises to give.
If the donor explicitly grants a recipient organization variance power, the specified unaffiliated beneficiary shall not recognize its potential for future distributions from the assets held by the recipient organization.

**IPSASB Literature**

*Definition of an Asset*

Assets are defined in paragraph 7 of International Public Sector Accounting Standard (IPSAS) 1, *Presentation of Financial Statements*, as “resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.”

*Guidance Relevant to Gifts and Donations*

Paragraphs 93 and 95 of IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, provide that an entity normally would recognize assets and revenues when the entity receives the gift or donation.

93. Gifts and donations are voluntary transfers of assets, including cash or other monetary assets, goods in-kind, and services in-kind that one entity makes to another, normally free from stipulations. The transferor may be an entity or an individual. For gifts and donations of cash or other monetary assets and goods in-kind, the past event giving rise to the control of resources embodying future economic benefits or service potential is normally the receipt of the gift or donation. Recognition of gifts or donations of services in-kind are addressed in paragraphs 98–103 below.

95. Gifts and donations (other than services in-kind) are recognized as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably. With gifts and donations, the making of the gift or donation and the transfer of legal title are often simultaneous; in such circumstances, there is no doubt as to the future economic benefits flowing to the entity.
GASB Literature

Definition of an Asset

Paragraph 8 of Concepts Statement No. 4, Elements of Financial Statements, defines assets as “resources with present service capacity that the government presently controls.”

Guidance Relevant to Irrevocable Charitable Trusts

Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, includes guides for voluntary nonexchange transactions. The general principle for voluntary nonexchange transactions is that a recipient does not have an asset until the eligibility requirements are met unless the provision of cash or other assets occurs in advance. The standards specifically state that permanently nonexpendable additions to endowments and other trusts, term endowments, contributions of works of art and historical treasurers, and promises of cash or other assets should be recognized when all eligibility requirements are met. Footnote 12 elaborates further that a specific eligibility requirement, the time requirement, “is met as soon as the recipient begins to honor the provider’s stipulation not to sell, disburse, or consume the resources and continues to be met for as long as the recipient honors that stipulation.” Thus, based on the guidance in Statement 33, a government that receives a promise or pledge of assets with a time requirement (for example, the assets must never be sold), but is not holding or acting as a trustee for those assets, would only recognize them as an asset and revenue when the government has received the assets to begin fulfilling that time requirement.

This guidance could be applied by analogy to irrevocable charitable trusts. When a government is a beneficiary of an irrevocable charitable trust held by a third party, the government cannot meet the eligibility requirements because it is not holding the assets or acting as the trustee. Thus, the government would not recognize an asset and revenue until it receives the assets.
Question 7.72.11 of the 2013–2014 edition of the *Comprehensive Implementation Guide* further emphasizes this guidance (emphasis added). In the scenario presented in this question, the college or university is serving as the trustee. Thus, the guidance here is consistent with the idea that the government would only recognize the assets if they are being held by the government directly or as a trustee.

7.72.11. Q—How should a public institution such as a college or university that serves as a trustee report split-interest agreements under Statements 34 and 35? (Q&A34B-133) [Amended 2012 and 2013]

A—Split-interest agreements provide that the public institution acts as trustee for the gift assets, with the requirement that an annual distribution be made to a specified beneficiary. Normally, these distributions are for a fixed dollar amount (annuity trust) or a fixed percentage of the trust’s fair market value (unitrust). The more common types of split-interest agreements operate similarly.

The public institution should recognize an asset for the fair value of the trust assets and a liability for the obligation to the beneficiary, with the difference between the asset and liability recognized as gift revenue. Changes (for example, changes in actuarial assumptions, revaluations of the present value of the trust assets, or adjustments to discount amortization) should be reflected in the statement of revenues, expenses, and changes in net position or the statement of activities, depending upon the special-purpose government reporting format used by the public institution. Upon termination of the trust, either through death or through expiration of the trust term, the liability should be removed with the offset to a change in the value of the trust in the statement of revenues, expenses, and changes in net position or the statement of activities.

### II. RESEARCH QUESTIONS

The aim of this research is to collect information to help the Board assess whether accounting and financial reporting guidance should be developed to address irrevocable charitable trusts. Specifically, the research set out to answer the following questions:

- What are the types of irrevocable charitable trusts encountered in the government environment?
- What is the prevalence and significance of irrevocable charitable trusts?
• Is information on irrevocable charitable trusts essential to providing useful information for making decisions and assessing accountability?

III. METHODOLOGY AND LIMITATIONS

Two research methods were employed to gather information on irrevocable charitable trusts—archival research and surveys. Preparation for these research activities included preliminary discussions with knowledgeable stakeholders.

Preliminary Discussions with Knowledgeable Stakeholders

To gain a deeper understanding of the issues surrounding irrevocable charitable trusts, a conference call was conducted with two representatives from NACUBO. The focus in this initial call was on the higher education sector because of the prevalence of irrevocable charitable trusts in that sector. Additionally, representatives from a large public university and an auditor who serves both public and private universities participated in the call. The goal of this discussion was not to obtain research results, but rather to improve the effectiveness of the research efforts by providing a better understanding of the environment. The discussion below highlights four major topics resulting from this discussion that were essential to informing the research efforts.

Involvement of Foundations

One of the key issues raised during this discussion was the involvement of foundations. Many public colleges and universities (institutions) use a foundation to solicit and obtain contributions from donors for the benefit of the institution. These foundations often follow FASB standards and many are included in the institutions’ reporting entity based on the provisions in GASB Statement No. 14, The Financial Reporting Entity, as amended. Thus, many of the foundations are applying the provisions of FASB Statement 136 and recognizing beneficial interests in trusts held by others. On the other hand, some public institutions receive contributions directly, might not use a foundation that follows FASB standards, or have a foundation that applies GASB standards. In these cases, the institution, which follows GASB standards, would not
recognize a beneficial interest in trusts held by others until the assets are received by the institution.

The involvement of foundations that follow FASB standards can result in inconsistent timing of recognizing revenue from irrevocable charitable trusts within the reporting entity and between institutions. For this reason, the research needed to focus separately on component units included within the reporting entity that follow FASB standards and the remaining entities that make up the reporting entity.

**Awareness of Irrevocable Charitable Trusts**

Another major issue relates to awareness of beneficial interests in trusts held by others. Participants in this discussion noted several instances in which a governmental entity may not be aware of its beneficial interests in trusts held by others and expressed concern about the effort that would be required to identify all potential beneficial interests in trusts held by others. Donors may not provide the institution or its foundations with a copy of the irrevocable trust agreement. The project staff noted during the literature review that this issue was raised during the due process leading to FASB Statement 136. Paragraph 90 of the Basis for Conclusions addressed these comments (emphasis added).

90. Most respondents to the Exposure Draft that commented about beneficiary reporting agreed with the Board’s conclusions. **However, several of those that disagreed expressed concerns about the administrative burdens of identifying assets that are held by recipient organizations for the beneficiary.** In addition, many respondents that act as recipient organizations expressed concerns about the burden of notifying beneficiaries of the amounts of assets they hold. **The Board believes that in most instances recipient organizations tend to raise resources on an ongoing basis for a select group of beneficiaries.** Thus, specified beneficiaries generally are aware of the efforts of recipient organizations, and the ongoing relationships between the organizations usually enable the beneficiaries to request and receive the information that they need for the preparation of their annual (or quarterly) financial statements. Although systems may need to be enhanced to gather or provide information on a more timely basis, the Board believes that the basic systems generally are in place.
To provide the Board with additional information on this issue, the research needed to obtain insight into the information governments currently have on beneficial interests in trusts held by others. Further, for those that include foundations that follow FASB standards in their reporting entity, the research methodology needed to explore the perceived costs of identifying assets that are held by others for the benefit of the government.

Types of Irrevocable Charitable Trusts

The final major issue discussed was the variety of types of irrevocable charitable trusts that exist currently and the potential for more to develop in the future. Based on the literature review and discussion with the participants in this discussion, the general types of irrevocable charitable trust arrangements are described below. In each of these different arrangements, a governmental entity could be the donor, the recipient (the entity holding the funds for the benefit of others), or the beneficiary. The agreements that are in the scope of this research would be those in which the government is the beneficiary, but has not received the assets:

- Charitable lead trusts:
  - Charitable lead annuity trusts—an arrangement whereby a donor funds a trust with certain payments to be made to the beneficiary over time. The payments are fixed in terms of dollars.
  - Charitable lead unitrusts—an arrangement whereby a donor funds a trust with certain payments to be made to the beneficiary over time. The payments are a fixed percentage of the trust’s fair market value.

- Charitable remainder trusts:
  - Charitable remainder annuity trusts—an arrangement whereby a donor establishes and funds a trust and the distributions from the trust will be paid to the beneficiaries during the term of the trust. The payments are fixed in terms of dollars.
  - Charitable remainder unitrusts—an arrangement whereby a donor establishes and funds a trust and the distributions from the trust will be
paid to the beneficiaries during the term of the trust. The payments are a percentage of the fair market value of the trust assets.

- Perpetual trusts held by a third party—an arrangement whereby a donor placed funds with a third party as a trustee with the stipulation that the beneficiary receive, in perpetuity, the income from the trust.
- Charitable gift annuities—similar to a charitable remainder annuity trust, except that no trust agreement exists. A donor transfers assets to the recipient with the agreement that the recipient will make payments to a designated beneficiary(ies) for a certain period of time or until the death of the beneficiary(ies).
- Pooled life income funds—an arrangement whereby multiple donors’ life income gifts are pooled and invested as a group. Each donor is assigned a certain number of units, based on the amount contributed, and income earned by the investments is paid based on the number of assigned units. When the donor dies, the value of the units is released to the beneficiary.
- Life interests in real estate—a contribution of real estate is made to a beneficiary and the donor retains the right to use the real estate until his or her death. At that time, the real estate then belongs to the beneficiary.

In addition to the general arrangements described above, the stakeholders noted that the institution might not be the only beneficiary of these arrangements. While it was noted that many institutions probably would not agree to arrangements with multiple beneficiaries, these scenarios may result in complexity in measuring a beneficial interest in a trust held by others.

To achieve the objectives of the research, the research needed to obtain insight on the types of irrevocable trust arrangements that governmental entities encounter, including those that may not be included in the list above.

*Prevalence of Beneficial Interests in Trusts Held by Others*

NACUBO conducts an annual endowment survey that provides information that provides some perspective on the prevalence of these arrangements. Table 1 is
excerpted from NACUBO’s endowment survey for fiscal years 2012 and 2013 and presents a subset of the results that are relevant to this research.

The project staff noted that this survey has consistent participation by a number of higher education institutions. The results appear to indicate that funds held in trust by others represent a significant dollar amount ($18.8 billion), but a small percentage of endowment funds. The results also appear to indicate that funds held in trust by others are a larger percentage of endowment assets for public institutions (9.2 percent) than for private institutions (1.9 percent). NACUBO representatives noted that amounts reported as funds held in trust by others may not always be related to a beneficial interest in a trust.

Table 1
Funds Held in Trust by Others as a Percentage of Endowments Public and Private Colleges and Universities (dollars in billions)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>All Public Institutions</th>
<th>All Private Institutions</th>
<th>All Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Institutions</td>
<td>306</td>
<td>302</td>
<td>525</td>
</tr>
<tr>
<td>Funds Held in Trust by Others</td>
<td>$11.40</td>
<td>$12.86</td>
<td>$5.24</td>
</tr>
<tr>
<td>Total Endowment</td>
<td>$123.72</td>
<td>$139.39</td>
<td>$282.35</td>
</tr>
<tr>
<td>Percentage</td>
<td>9.2%</td>
<td>9.2%</td>
<td>1.9%</td>
</tr>
</tbody>
</table>


NACUBO representatives noted that there may be some discrepancies in the amounts that public institutions report as funds held in trust by others. Specifically, NACUBO representatives stated that some public institutions may be including amounts they have received and placed in trust with another entity on behalf of a donor and may not be including amounts that they have not received. Because of the specific FASB guidance that addresses irrevocable charitable trusts for private institutions, they believe that this same issue is less prevalent in the data for private institutions. Thus, it is difficult to draw firm conclusions from the NACUBO survey regarding irrevocable charitable trusts, but the survey results do provide some overall perspective on the potential prevalence.
Liaison with HFMA

During a liaison meeting with HFMA’s Principals and Practices Board (PPB) in April 2014, PPB members provided specific feedback on irrevocable charitable trusts. One PPB member noted that, while beneficial interests in assets held by others may not be significant, they are common in not-for-profit healthcare entities, which are sometimes "acquired"1 by a governmental healthcare system.

Another PPB member noted that, in some rural communities, healthcare entities may have large pools of assets, including beneficial interests in assets held by others.

Archival Research

Governmental entities do not recognize assets for beneficial interests in trusts held by others and are not required to disclose any information about them. Nevertheless, some governmental entities may choose to disclose information about these beneficial interests voluntarily. Other governmental entities may have component units that follow FASB standards; such component units would recognize assets for beneficial interests and disclose some information about them. The objective of the archival research was to understand what information, if any, is included in general purpose external financial reports related to irrevocable charitable trusts.

To select financial reports to examine, the project staff concluded that it would be best to focus on the higher education sector, where these types of arrangements are more prevalent. The research focused on the most recent financial statements issued by the entities selected. A list of public colleges and universities was obtained from the Integrated Postsecondary Education Data System (IPEDS) located on the National Center for Educational Statistics website.2 Enrollment data was used to separate the entities based on size. The IPEDS list includes a separate entry for each campus within

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1 The term acquired is in quotations because it is not used in this memorandum in the same manner that it is used in Statement No. 69, Government Combinations and Disposals of Government Operations. The joining of the legally separate entities is not done through a transaction that would be within the scope of Statement 69 because both entities continue to exist as legally separate entities.

a university or college system; the project staff obtained the financial report for the system that includes the selected campus. No duplicate institutions from the same system were selected.

A sample of 21 colleges and universities was randomly selected from the IPEDS list, which contains 2,012 colleges and universities. Ten large colleges and universities (enrollment greater than 10,000), five medium institutions (enrollment between 2,000 and 10,000), and five small institutions (enrollment below 2,000) were selected. One of the large selections was excluded from the analysis because its financial statements are reported using FASB standards. Two additional selections were added as two community colleges that report as BTAs were selected in the sample for the Financial Reporting Model Reexamination pre-agenda research.

The most recent audited annual financial report was obtained for each institution (or the system that includes the institution) selected. Fiscal year-ends ranged from June 30, 2011, through June 30, 2013. The annual financial reports were examined for any assets or disclosures related to beneficial interests in assets held by others, irrevocable charitable trusts, or split-interest agreements. Further, the project staff identified any foundations that were included as component units and whether they follow FASB standards. If the institution did not specifically identify these types of arrangements in its statement of net position or disclosures, it generally was not possible to determine whether the entity had these types of arrangements. As GASB currently does not permit recognition of an asset for a beneficial interest in assets held by others and does not require any disclosures in this area, it was assumed that most institutions would not have information on these types of arrangements unless they included a foundation that follows the FASB’s standards as a component unit.

**Surveys**

To achieve the objectives of this research, the project staff needed to gain information on the prevalence of irrevocable charitable trusts in the government environment and on the needs of users of governmental financial statements related to irrevocable charitable trusts. Because of the narrow focus of this research, the project staff chose to
use surveys to achieve both of these objectives. Surveys provide the ability to reach a broader group of stakeholders in a limited amount of time; however, surveys do not allow for immediate follow-up questions to clarify the responses obtained from the participants. Thus, the questions in the survey were designed to include follow-up questions with the goal of compensating somewhat for the limitations of using surveys.

**Preparer Survey**

To obtain information about the prevalence of irrevocable charitable trusts, a survey was designed to solicit feedback from preparers. (A copy of the survey can be found in Appendix B.) The survey was designed to ask questions of the participant in three different areas depending on how the participant described the reporting entity: (1) the primary government, (2) foundations that are included as component units and follow FASB standards, and (3) foundations that are included as component units and follow GASB standards. For each of these areas that were relevant to the participant, the survey asked questions about whether they have any information on irrevocable charitable trusts, the types of irrevocable charitable trusts they encounter, and the prevalence of irrevocable charitable trusts as compared to the total assets of the reporting entity. Further, additional questions were asked of participants that include a foundation that follows the FASB’s standards to determine how they perceive the costs associated with accounting for and preparing disclosures related to beneficial interests in assets held by others.

The survey was developed based on the procedures set forth in the Research and Technical Activities (RTA) Manual. As part of the development of this survey, two higher education institutions and two representatives from NACUBO pretested the survey and provided feedback to the project staff. The survey was administered through an online survey tool to allow for broad participation. The project staff had initially focused on the higher education sector; however, it is possible that other sectors also might have beneficial interests in assets held by others, such as the healthcare sector, or might exist at general purpose governments involved in activities such as zoos, libraries or museums. Thus, an invitation to participate in the survey was distributed by the Association of Government Accountants (AGA), the Government Finance Officers
Association (GFOA), the Healthcare Financial Management Association (HFMA), NACUBO, and the National Association of State Auditors, Comptrollers, and Treasurers (NASACT) to their members during the week of March 31, 2014. Thus, it is not possible to provide a specific number of invitations that were distributed. In addition, the project staff identified preparers who had submitted technical inquiries related to irrevocable charitable trusts and extended specific invitations to those individuals. Three weeks were allowed to complete the survey. Reminders were sent out weekly to any participants who began the survey and entered contact information, but had not yet completed the survey.

**User Survey**

To obtain information about the views of users, a short survey was designed to gain insight into what information, if any, about irrevocable charitable trusts they believe is important to the decisions they make and the analyses they perform. (A copy of the survey can be found in Appendix A.) The survey was developed based on the procedures set forth in the RTA Manual.

The survey was administered by email to 271 potential participants. This pool of potential participants includes members of the National Federation of Municipal Analysts (NFMA) who have identified themselves as specialists in either healthcare or higher education. It also includes staff in the legislative fiscal offices of each state who were identified on their websites as focusing on healthcare or higher education. The legislative fiscal office website addresses were obtained from the National Conference of State Legislatures website. Participants were given three weeks to respond to this survey. During this period, the project staff sent two reminder communications and followed up with individual participants who asked questions about the survey.

The table below summarizes the number of responses received and the types of users that responded to the survey. The response rate is low, though not significantly below the response rates of these types of users to other surveys. A part of the explanation of

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the response rate may be that the subject of this research is narrow and may be relevant
to only a minority of governments.

Table 2
Responses to User Survey by Type

<table>
<thead>
<tr>
<th>User Group</th>
<th>Number of Responses</th>
<th>Number of Invitations</th>
<th>Response Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legislative staff</td>
<td>5</td>
<td>63</td>
<td>7.9%</td>
</tr>
<tr>
<td>Bond analysts</td>
<td>9</td>
<td>208</td>
<td>4.3%</td>
</tr>
<tr>
<td>Total</td>
<td>14</td>
<td>271</td>
<td>5.2%</td>
</tr>
</tbody>
</table>

Limitations to Methodologies

There are limitations to the research methodologies that were employed during this
research project. Archival research was performed for a sample of higher education
institutions. While efforts were made to randomly sample both large and small
institutions, the results cannot be generalized to the broader population with any
degree of certainty. User surveys were distributed to legislative officials and NFMA
members that identified higher education or healthcare as their areas of focus. The
results of the research may be representative of the views of the larger population of
users but are not strictly generalizable. Preparer surveys were distributed through
several GASAC representatives to their members. While the preparer survey was
distributed broadly, the results cannot be generalized to the broader population.

IV. RESULTS AND ANALYSIS

Archival Research

The project staff reviewed the audited annual financial statements of 21 public colleges
and universities. Of the 21 colleges, 20 institutions had at least one foundation; there
were 59 foundations in total that could be identified. One institution did not provide
enough information to identify how many foundations were included. The number of
foundations for each entity ranged from 1 to 23.

According to financial statement disclosures, five of the foundations did not meet the
criteria to be included as a component unit. In three of these five instances, the
disclosures explain that the financial position of the foundation is not significant to the entity. Four of the entities did not report a foundation as a component unit. Of the other 16, 3 of the entities blend their foundations, 11 discretely present their foundations, and 2 have some blended and some discretely presented foundations.

Among the 13 entities that have discretely presented foundations, 7 include balances for only one foundation in their financial report. Another entity discretely presents one research foundation and mentions in its disclosures two other foundations that appear to be blended. Two entities present the balances for three foundations each, with one of these two entities having a fourth foundation that was found immaterial to the entity and therefore not included in its reporting entity. One entity does not specify the number of foundations it includes in its financial report. The remaining entities have 10 and 22 discretely presented foundations. The entity with 22 discretely presented foundations included also has an additional research foundation that is blended with the entity, for a total of 23 foundations.

Table 3 summarizes the foundations included as component units for each of the selected entities:
Table 3
Foundations Reported as Component Units

<table>
<thead>
<tr>
<th>Entity</th>
<th>Blended Foundations</th>
<th>Discretely Presented Foundations</th>
<th>Foundations Noted, but Not Included</th>
<th>Total Number of Foundations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>1</td>
<td>22</td>
<td>0</td>
<td>23</td>
</tr>
<tr>
<td>3</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>4</td>
<td>0</td>
<td>0</td>
<td>1 (a)</td>
<td>1</td>
</tr>
<tr>
<td>5</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0 (b)</td>
</tr>
<tr>
<td>6</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>7</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>8</td>
<td>0</td>
<td>10</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>9</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>10</td>
<td>0</td>
<td>3</td>
<td>1 (a)</td>
<td>4</td>
</tr>
<tr>
<td>11</td>
<td>0</td>
<td>0</td>
<td>1 (c)</td>
<td>1</td>
</tr>
<tr>
<td>12</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>13</td>
<td>0</td>
<td>(d)</td>
<td>0</td>
<td>(d)</td>
</tr>
<tr>
<td>14</td>
<td>0</td>
<td>3</td>
<td>0</td>
<td>3</td>
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<tr>
<td>15</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>16</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>17</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>18</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>19</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>20</td>
<td>0</td>
<td>0</td>
<td>1 (c)</td>
<td>1</td>
</tr>
<tr>
<td>21</td>
<td>0</td>
<td>0</td>
<td>1 (a)</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>8</td>
<td>46</td>
<td>5</td>
<td>59</td>
</tr>
</tbody>
</table>

(a) Notes to the financial statement explain that the financial position of a foundation is not significant to the reporting entity.

(b) This entity does not have any foundations.

(c) Notes to the financial statement explain the foundation does not meet the criteria of a component unit.

(d) Financial statements do not reflect a number of foundations. These foundations are discretely presented.

To provide some perspective on the overall significance of the discretely presented foundations to the entity as a whole, the project staff looked at the total assets of the discretely presented foundations in relation to the total assets of the reporting entity. (Blended foundations were not included in this analysis because their information was not individually available.) In five instances, the total assets of all of the discretely presented foundation(s) were 2 percent or less of the total assets of the reporting entity. In six other instances, the total assets of foundations(s) were equivalent to 11 percent to
17 percent of the total assets of the reporting entity. Two foundations had total assets equivalent to over 20 percent of the total assets of the reporting entity. Table 4 provides the statistics by entity:

Table 4

<table>
<thead>
<tr>
<th>Entity</th>
<th>Assets of Discretely Presented Foundations as a Percentage of Total Reporting Entity Assets</th>
<th>Foundation’s Beneficial Interests in Assets Held by a Third Party as a Percentage of Total Reporting Entity Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>11%</td>
<td>0.00%</td>
</tr>
<tr>
<td>2</td>
<td>14% (a)</td>
<td>0.00%</td>
</tr>
<tr>
<td>6</td>
<td>38%</td>
<td>1.31%</td>
</tr>
<tr>
<td>7</td>
<td>21%</td>
<td>0.29%</td>
</tr>
<tr>
<td>8</td>
<td>13%</td>
<td>0.00%</td>
</tr>
<tr>
<td>9</td>
<td>14%</td>
<td>0.00%</td>
</tr>
<tr>
<td>10</td>
<td>16%</td>
<td>0.17%</td>
</tr>
<tr>
<td>12</td>
<td>2%</td>
<td>0.16%</td>
</tr>
<tr>
<td>13</td>
<td>17%</td>
<td>0.00%</td>
</tr>
<tr>
<td>14</td>
<td>2%</td>
<td>0.00%</td>
</tr>
<tr>
<td>15</td>
<td>1%</td>
<td>0.00%</td>
</tr>
<tr>
<td>17</td>
<td>1%</td>
<td>0.00%</td>
</tr>
<tr>
<td>19</td>
<td>1%</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

(a) Amounts for these discretely presented component units include both foundations and other component units that are not foundations. Information was not available to separate these component units.

Of the 13 entities that include discretely presented foundations in their financial statements, only 2 include a line item on the face of the financial statements for their foundations’ beneficial interests in split-interest agreements that are held by a third party. One of these two entities, in addition to the beneficial interest reported in the discretely presented foundation, shows a balance for a beneficial interest in charitable remainder trusts in the financial statements of the primary government. Because this primary government follows GASB standards, the project staff believes that this beneficial interest pertains to one or both of its two foundations that are blended. In both instances, the beneficial interest is equivalent to less than 0.5 percent of the total assets of the entity.
For the two other entities, the foundation’s beneficiary interest in trusts held by third parties can be found in the notes to the financial statements. For these two entities, the beneficial interest of the foundation is the less than 2 percent of the total assets of the reporting entity.

The project staff also looked at the notes to the financial statements to determine what disclosures, if any, are being made in regard to beneficial interests. Of the 21 entities, 16 do not include any disclosures regarding split-interest agreements or a beneficial interest in assets held by third parties. The following disclosures were noted by the other five entities:

- In disclosures related to accounting policies:
  - A brief note on trusts held by third parties
  - A brief note on irrevocable charitable remainder trusts and irrevocable charitable trusts for which the entity’s foundation is the beneficiary
  - An extensive note on several split-agreements, including charitable gift annuities, charitable remainder trusts, lead trusts, perpetual trusts, and other trusts; notes are provided signifying whether the entity’s foundation is the trustee or when a third-party fulfills this role.

- In disclosures related to investments, one institution provided a brief note on the fair value of beneficial interests in charitable remainder trusts held by others and discusses that level 3 inputs were used to determine the fair value.

- In disclosures related to funds held in trust by others, one entity had a brief note on the entity being the beneficiary of investments managed by an outside trustee and the value of the investments.

**Preparer Survey**

The preparer survey was completed by 16 respondents, 9 of whom work for a state government or related agency and 7 of whom work for a university (including 1 working for a university’s foundation).
The survey asked respondents if foundations are included as component units in their financial reporting entity. Six respondents answered yes—four universities and two state governments.

The respondents who answered yes were then asked whether their entity’s foundations are beneficiaries of a split-interest agreement in which a donor has no ability to change the beneficiaries. One state answered no and the other answered yes. The latter was presented with questions related to the foundation but did not provide any answers, later noting that because the state’s universities include the foundations as component units in their financials, and are then included within the state’s financial reporting entity, the state did not have any details or specific knowledge. The respondents from all four colleges that include foundations as component units responded that their foundations were beneficiaries of split-interest agreements in which a donor has no ability to change the beneficiaries.

The survey further inquired about the accounting standards that are followed by foundations that are included in their reporting entity. Three foundations follow FASB standards only and the fourth follows GASB standards only.

*Foundations That Follow FASB Standards*

The three respondents from entities with foundations that follow FASB standards were provided with a list of types of irrevocable charitable trust agreements and were asked to select the types of agreement in which their entity’s foundations report a beneficial interest. Table 5 below summarizes the responses:

**Table 5**

<table>
<thead>
<tr>
<th>Type of Agreement</th>
<th>Number of entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charitable lead annuity trusts</td>
<td>2</td>
</tr>
<tr>
<td>Charitable lead unitrusts</td>
<td>2</td>
</tr>
<tr>
<td>Perpetual trusts held by a third party</td>
<td>2</td>
</tr>
<tr>
<td>Charitable remainder annuity trusts</td>
<td>3</td>
</tr>
</tbody>
</table>
These three respondents also were asked about any split-interest agreements for which the foundations do not have the information necessary to select the type. This was not an issue for any of the three respondents.

These respondents were then asked how significant the total of all beneficial interests in split-interest agreements is when compared to the total of all assets of the governmental entity. Of the three respondents, two selected “0%-5% of total assets” and one selected “do not know.”

Using a scale from 1 to 5, with 1 being not significant at all and 5 being very significant, survey participants were asked to describe the costs associated with obtaining a valuation of the beneficial interest in split-interest agreement for the financial statements of the foundation. One respondent selected a value of 3 and two selected “do not know.” Similarly, participants were asked about the costs associated with obtaining the information for note disclosures related to the beneficial interest in split-interest agreements for the financial statements of the foundation. Respondents selected the same values as for they did for the previous question.

*Foundations That Follow GASB Standards*

The one respondent from an entity with foundations that follow GASB standards was presented with a list of split-interest agreements and asked to select all the types of agreements in which their entity’s foundations have a beneficial interest. This respondent only selected charitable lead annuity trusts. The survey also asked if there are split-interest agreements for which these foundations do not have the information necessary to select the type. The respondent did not have this issue.

The respondent was asked whether their entity or their entity’s foundations that follow GASB standards include any disclosures about split-interest agreements in the financial

| Charitable remainder unitrusts | 2 |
| Charitable gift annuities       | 2 |
| Pooled life income funds        | 1 |
| Life interests in real estate   | 1 |
| Other                           | 0 |

| Charitable remainder unitrusts | 2 |
| Charitable gift annuities       | 2 |
| Pooled life income funds        | 1 |
| Life interests in real estate   | 1 |
| Other                           | 0 |
statements. The respondent expressed that neither includes these disclosures. The respondent was then asked if they receive or obtain any information about the fair value of the beneficial interests in split-interest agreements that are held in trust by others. The respondent said they receive no information. When asked about the significance of all beneficial interests in comparison with the entity’s total assets, the respondent stated that they did not know.

**Governmental Entities Other Than Foundations**

All participants, regardless of whether or not they included foundations in their reporting entity, were asked whether their governmental entity is a beneficiary of split-interest agreements in which the donor has no ability to change the beneficiaries. Of the 16 survey respondents, five answered yes. These five respondents were presented with a list of split-interest agreements and asked to select all the types of agreements in which their governmental entity has a beneficial interest. Table 6 summarizes the responses.

**Table 6**

| Type of Irrevocable Charitable Trust Agreements for Entities Other Than Foundations (N=5) |
|---|---|
| **Types of Agreements** | **Number of entities** |
| Charitable lead annuity trusts | 1 |
| Charitable lead unitrusts | 1 |
| Perpetual trusts held by a third party | 1 |
| Charitable remainder annuity trusts | 2 |
| Charitable remainder unitrusts | 3 |
| Charitable gift annuities | 4 |
| Pooled life income funds | 2 |
| Life interests in real estate | 1 |
| Other | 1 |

The respondent that selected “other” expanded on their answer by mentioning the existence of estates that have left funds to a state government to be used for specific purposes such as education for the blind.
Of the five respondents, only three indicated that they disclose information about the split-interest agreements in the notes to their financial statements. When asked what information they disclose in the notes to their financial statements about split-interest agreements, the responses varied:

- Acknowledgment that they are the beneficiary of irrevocable charitable trusts
- A general explanation of their split-interest agreements
- Information about where these assets are reported and how they are measured
- Information about the measurement of the liabilities to others who have beneficial interests in the irrevocable charitable trust, including discount rates
- Explanation of change in value of liabilities to others.

These participants were asked if they currently receive or obtain any information about the fair value of the governmental entity’s beneficial interests in split-interest agreements that are held in trust by others. Table 7 summarizes the responses from these five participants:

<table>
<thead>
<tr>
<th>Number of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receive information on all of them</td>
</tr>
<tr>
<td>Receive information on some, but not all</td>
</tr>
<tr>
<td>Receive no information</td>
</tr>
</tbody>
</table>

The three respondents who receive at least some information were asked what information they receive. Their answers included:

Income, market value, asset allocation, distributions

***

One trust established through the [entity’s] system with assets in a specific brokerage account. This trust would be material to our financial statements. Prior to June 30, 2013, we recorded these trusts with the concurrence of our auditors.
We obtained what information we could on these trusts but in some years donors would not supply information and in other years they would making it difficult to properly value them. Other the one trust noted above, the sum of these other trusts was immaterial to the financial statements.

* * *

In the current fiscal year the University became beneficiary to a charitable remainder annuity trust. We received the trust agreement and investment statements.

Using a scale from 1 to 5, with 1 being not significant at all and 5 being very significant, the respondents that receive at least some information were asked to describe the costs of obtaining the information for the fair value of the beneficial interests in split-interest agreements that are held in trust by others. The three respondents each selected different values: 2, 3, and 5. The respondent that selected a value of 5 is the respondent that also noted that the entity became a beneficiary to a charitable remainder annuity trust in the current year.

The five survey respondents were asked about the significance of the total of all beneficiary interests in split-interest agreements that are held in trust by others relative to the total assets of the governmental entity. Four respondents selected “0%-5% of total assets” and one respondent selected “do not know.”

Summary of Preparer Survey Results

Based on the results of the survey, the project staff notes that split-interest agreements in which a governmental entity is the beneficiary are prevalent among the respondents, particularly in the case of colleges and universities. Although prevalent, the participants in the survey generally noted that beneficial interests in split-interest agreements held by third parties appear to represent a small portion (0%-5%) of the total assets of the reporting entity.

Most respondents to the preparer survey with split-interest agreements held by third parties receive at least some information related to them. Some entities provide certain information in the notes to their financial statements. Most of the information provided
to users includes descriptions of the split-interest agreements and explanations of how these agreements are recorded. However, the information included in the financial statements is not the same for all entities. In addition, it is interesting to note that state government participants that include universities with foundations generally did not have enough information about their colleges and universities that benefit from split-interest agreements held by third parties to complete the survey.

User Survey

During the three-week period in which survey responses were being accepted, the project staff received 14 responses. Six respondents—3 state legislative staff and 3 municipal bond analysts—indicated they believed they did not have enough experience or knowledge to complete the survey. The project staff attempted to identify what part of the survey these respondents believed that they lacked experience with. Four of these respondents indicated that their lack of experience directly related to the topic of the survey, irrevocable charitable trusts. One respondent indicated that they do not perform analyses on entities that follow GASB standards and one respondent indicated that their analysis is strictly with hospitals and not with irrevocable charitable trusts. The project staff notes that this result could indicate that these respondents are not aware of or do not understand current accounting and financial reporting guidance for irrevocable charitable trusts, or it could indicate that these respondents have not focused on this type of information in the past.

The analysis that follows is based on the responses of the eight respondents that answered one or more areas of the survey.

Survey participants were asked about the importance of information about contributions made directly to the external trust to the decisions they make and their analyses they perform. Table 8 summarizes the responses from the participants:
Table 8
Importance of Information about Contributions to External Trusts

<table>
<thead>
<tr>
<th>Response</th>
<th># of Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>1—Not Important At All</td>
<td>0</td>
</tr>
<tr>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>5—Very Important</td>
<td>1</td>
</tr>
<tr>
<td>6—Do Not Know</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>8</td>
</tr>
</tbody>
</table>

For those that rated the information a 3 or higher, the survey asked how the respondents would use information about the contributions to external trusts to make decisions or perform analyses regarding the government. The respondents were not specific on how they would use the information in their analyses, but they provided some general feedback on the types of information in which they would be interested. Three of the five respondents expressed an interest in knowing the likelihood of repeat donors; however, one respondent qualified this statement by stating that a final decision would not be based on a charitable trust. This respondent believes that because it is unlikely that some trusts will be applied to debt service, the user does not see a trust being well endowed as a strong positive aspect, thus leading to the usefulness of this information being somewhat limited. Another respondent expressed that, for the purposes of their analyses, split-interest agreements held by third parties are incorporated into the value of total investments for determining balance sheet strength. Another user believes that information about potential receivables (the balance in the trust fund) and that period’s inflows and outflows into the trust would be most helpful and aid financial analysis.

Similarly, the survey asked users how important or unimportant information about the assets held by the external trust would be to the decisions they make and their analyses of the government. Table 9 summarizes the responses from the participants:
Table 9
Importance of Information about Assets Held by External Trusts

<table>
<thead>
<tr>
<th>Response</th>
<th># of Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>1—Not Important At All</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>5—Very Important</td>
<td>2</td>
</tr>
<tr>
<td>6—Do Not Know</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>8</td>
</tr>
</tbody>
</table>

For those that rated information about the assets in external trusts a 3 or higher, the survey asked how the respondents would use the information to make decisions or perform analyses regarding the government. The respondents were not specific on how they would use the information in their analyses, but they provided some general feedback on the types of information in which they would be interested. Most respondents expressed that information about the types and liquidity of assets sitting in the trust, the policies and rules governing the assets, and government’s ability to access those assets is what they find most important. One respondent specifically expressed that information about trusts for school districts usually has no bearing on decisions as these trusts are usually set up to fund a specific program. This respondent would care about information on trusts that can support operations or debt service.

Finally, the survey asked what other information they would consider important for the government to report about the external trust and how would they use this information to make decisions or perform analyses regarding the government. Three users provided a response, expressing once again interest in information about the types and liquidity of the investment in the trust, restrictions and policies that govern the trust, and information about the trust fund assets and its inflows and outflows. Only one user followed up expressing this information would help in the general assessment of management and policies around investments.
V. RESEARCH SUMMARY

There are many types of irrevocable charitable trust agreements. The AICPA and NACUBO have provided literature to aid entities in identifying and accounting for the various types of trust arrangements. A literature review reveals that the FASB has set standards specifically to address when an entity has an irrevocable beneficial interest in assets held by third party. Other standards setters, including the GASB, have not provided literature that directly addresses this scenario.

Because many governmental entities (specifically those in healthcare and higher education) include foundations that follow FASB’s standards, there are differences in how similar transactions are accounted for within the same reporting entity; however, there are many other differences that exist between these standards setters as well. Preparer surveys and archival research provided information about the significance of these beneficial interests. While the results of these efforts indicate that many entities either did not have enough information or noted that beneficial interests in assets held by others were less than 5 percent of the total assets of the reporting entity, these irrevocable charitable trusts are important to their efforts to raise funds and could see an increase in popularity in the future. Also, the lack of information on irrevocable charitable trusts may be due to the fact that current standards do not specifically address accounting and financial reporting for them.

User survey respondents focused on the terms of these arrangements and whether the beneficial interest would eventually be converted to cash that could be used in operations or to satisfy debt service requirements.
APPENDIX A: USER SURVEY

The Governmental Accounting Standards Board (GASB) invites you to take a very brief survey regarding irrevocable trusts that hold assets exclusively for the benefit of one or more governments (also commonly referred to as split-interest agreements). This survey should take no more than 5–10 minutes to complete.

You can respond to the survey by replying to this email and entering your answers directly below. Please respond to the survey no later than Monday, March 31, 2014.

If you have any questions about the survey, please contact Blake Rodgers at 203-956-5253 or brrodgers@gasb.org or Francisco Loredo at 203-956-3441 or floredo@gasb.org. Thank you in advance for your help.

Background

Some governments benefit from assets that have been placed in an irrevocable trust for the exclusive benefit of the government. An irrevocable trust is an arrangement in which contributions of resources, once made to the trust, can no longer be accessed by that contributor. Further, the trust cannot be altered or terminated without the agreement of the beneficiaries of the trust.

Some of these trusts are administered by the governments themselves, such as permanent endowments; the government reports revenue and restricted assets in its financial statements, in the amount of contributions to the trust.

In other cases, contributions are made directly to an external trust outside of the government’s control, but still with the intention of exclusively benefiting the government. When contributions are made to these external trusts, a government that follows GASB standards currently does not report any revenue or assets (such as a receivable from the trust) in its financial statements. Revenue and assets are reported by the government when it receives payments from the trust. On the other hand, if a government includes a foundation that follows Financial Accounting Standards Board (FASB) standards and the foundation is a beneficiary of the irrevocable external trust, the foundation would report an asset for its “beneficial interest” in the external trust and revenue.

The FASB also requires entities to disclose information about split-interest agreements including:

- Descriptions of the general terms of existing split-interest agreements
- Assets and liabilities recognized
- Limitations or restrictions imposed on the assets
- Valuation techniques and inputs related to determining the fair value of the assets, and
• Information about any beneficial interests that the entity is not able to obtain sufficient information about to make a reasonable estimate of the fair value of the assets.

Questions

For the purpose of these questions, consider that a government you are interested in is the exclusive beneficiary of an external trust. These questions regard the importance of information to your decisions and analyses about the government.

1. How important or unimportant would information about contributions made directly to the external trust be to the decisions you make and the analyses you perform regarding the government?

<table>
<thead>
<tr>
<th>Not Important</th>
<th>Very Important</th>
<th>Do Not Know</th>
</tr>
</thead>
<tbody>
<tr>
<td>At All</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
</tbody>
</table>

If you answered 3, 4, or 5, how would you use this information to make decisions or perform analyses regarding the government?

2. How important or unimportant would information about the assets held by the external trust be to the decisions you make and the analyses you perform regarding the government?

<table>
<thead>
<tr>
<th>Not Important</th>
<th>Very Important</th>
<th>Do Not Know</th>
</tr>
</thead>
<tbody>
<tr>
<td>At All</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
</tbody>
</table>

If you answered 3, 4, or 5, what specific information about the assets would be important and how would you use that information to make decisions or perform analyses regarding the government?

3. What other information, if any, would you consider important for the government to report about the external trust?

How would you use this information to make decisions or perform analyses regarding the government?
APPENDIX B: PREPARER SURVEY

Introduction

Some governmental entities benefit from assets that have been placed in an irrevocable trust for the exclusive benefit of the governmental entity. An irrevocable trust is an arrangement in which contributions of resources, once made to the trust, can no longer be accessed by that contributor. Further, the trust cannot be altered or terminated without the agreement of the beneficiaries of the trust.

Some of these trusts are owned and administered by the governmental entity themselves, such as permanent endowments; the governmental entity reports revenue and restricted assets in its financial statements.

In other cases, contributions are made directly to an external trust outside of the governmental entity’s control, but still with the intention of exclusively benefiting the governmental entity. When contributions are made to these external trusts (e.g. funds held in trust by others), a governmental entity that follows GASB standards currently does not report any revenue or assets in its financial statements. Revenue and assets are reported by the governmental entity when it receives payments from the trust.

If a governmental entity includes a foundation that follows Financial Accounting Standards Board (FASB) standards and the foundation is a beneficiary of the irrevocable external trust, the foundation would report an asset for its “beneficial interest” in the external trust and revenue.

The FASB also requires entities to disclose information about these split-interest agreements including:

- Descriptions of the general terms of existing split-interest agreements
- Assets and liabilities recognized
- Limitations or restrictions imposed on the assets
- Valuation techniques and inputs related to determining the fair value of the assets, and
- Information about any beneficial interests that the entity is not able to obtain sufficient information about to make a reasonable estimate of the fair value of the assets.

About You

This background information is requested to assist in the analysis of survey responses and will be used for internal GASB purposes only. Responses to this survey will be considered anonymous and will not be attributed to specific individuals or specific governmental entities, firms, or organizations.
A.1. Your name
A.2. Your email address
A.3. Your title
A.4. Your employer (governmental entity)

Please answer the following questions for the most recent fiscal year for which financial statements are available.

1. What is the fiscal year-end date of your reporting entity’s most recent financial statements that you will be using to complete this survey?

2. In your financial reporting entity, are any foundations (legally separate entities) included as component units?
   • Yes
   • No (Proceed to Question GE1)

3. Are the foundations a beneficiary of split-interest agreements in which the donor has no ability to change the beneficiaries?
   • Yes
   • No (Proceed to Question GE1)

4. Do these foundations follow the standards of the Financial Accounting Standards Board (FASB) or the Governmental Accounting Standards Board (GASB)?
   • All of these foundations follow FASB only
   • All of these foundations follow GASB only (Proceed to Question FG1)
   • Some of these foundations follow FASB and some follow GASB (Answer all relevant questions from FF1–FF4 and FG1–FG4)

Questions FF1–FF4 only relate to foundations that follow FASB standards.

**FF1.** Which of the following types of split-interest agreements do the foundation(s) that follow FASB standards report a beneficial interest in? (check all that apply)
   a. Charitable lead annuity trusts—an arrangement whereby a donor funds a trust with certain payments to be made to the foundation over time. The payments are fixed in terms of dollars.
   b. Charitable lead unitrusts—an arrangement whereby a donor funds a trust with certain payments to be made to the foundation over time. The payments are a fixed percentage of the trust’s fair market value.
c. Perpetual trusts held by a third party—an arrangement whereby a donor placed funds with a third party as a trustee with the stipulation that the foundation receive, in perpetuity, the income from the trust.

d. Charitable remainder annuity trusts—an arrangement whereby a donor establishes and funds a trust and the distributions from the trust will be paid to the foundation and/or other beneficiaries during the term of the trust. The payments are fixed in terms of dollars.

e. Charitable remainder unitrusts—an arrangement whereby a donor establishes and funds a trust and the distributions from the trust will be paid to the foundation and/or other beneficiaries during the term of the trust. The payments are a percentage of the fair market value of the trust assets.

f. Charitable gift annuities—similar to a charitable remainder annuity trust, except that no trust agreement exists. A donor transfers assets to the foundation with the agreement that the foundation will make payments to a designated beneficiary(ies) for a certain period of time or until the death of the beneficiary(ies).

g. Pooled life income funds—an arrangement whereby multiple donors’ life income gifts are pooled and invested as a group. Each donor is assigned a certain number of units, based on the amount contributed, and income earned by the investments is paid based on the number of assigned units. When the donor dies, the value of the units is released to the foundation.

h. Life interests in real estate—the foundation receives a contribution of real estate and the donor retains the right to use the real estate until his or her death.

i. Other (please describe:)

j. There are some split-interest agreements for which the foundation does not have the information necessary to select a type. (If checked, go to Question FF1A. If not checked, proceed to Question FF2.)

**FF1A.** What information is lacking about the split-interest agreements that prevents the foundation from categorizing the split-interest agreements into a type?

**FF2.** How significant is the total of all beneficial interests in split-interest agreements relative to the total of all assets of the governmental entity?

- 0%-5% of total assets
- 6%-10% of total assets
- 11%-20% of total assets
- 21%-50% of total assets
- More than 50% of total assets
- Do not know
**FF3.** On a scale from 1 to 5—with 1 being not significant at all and 5 being very significant—how would you describe the costs (considering both time required and monetary costs) associated with obtaining a valuation of the beneficial interest in split-interest agreements for the financial statements of the foundations?

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(if 4 or 5 is selected proceed to Question FF3A)

**FF3A.** What makes the costs of obtaining a valuation of the beneficial interest in split-interest agreements for the financial statements of the foundations significant/very significant?

**FF4.** On a scale from 1 to 5—with 1 being not significant at all and 5 being very significant—how would you describe the costs (considering both time required and monetary costs) associated with obtaining the information for note disclosures related to beneficial interests in split-interest agreements for the financial statements of the foundations?

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(if 4 or 5 is selected proceed to Question FF4A)

**FF4A.** What makes the costs of obtaining the information for note disclosures related to beneficial interests in split-interest agreements for the financial statements of the foundations significant/very significant?

**Questions FG1–FG6 only relate to foundations that follow GASB standards.**

**FG1.** Which of the following types of split-interest agreements do the foundation(s) that follow GASB standards have a beneficial interest in? (check all that apply)

a. Charitable lead annuity trusts—an arrangement whereby a donor funds a trust with certain payments to be made to the foundation over time. The payments are fixed in terms of dollars.

b. Charitable lead unitrusts—an arrangement whereby a donor funds a trust with certain payments to be made to the foundation over time. The payments are a fixed percentage of the trust’s fair market value.
c. Perpetual trusts held by a third party—an arrangement whereby a donor placed funds with a third party as a trustee with the stipulation that the foundation receive, in perpetuity, the income from the trust.

d. Charitable remainder annuity trusts—an arrangement whereby a donor establishes and funds a trust and the distributions from the trust will be paid to the foundation and/or other beneficiaries during the term of the trust. The payments are fixed in terms of dollars.

e. Charitable remainder unitrusts—an arrangement whereby a donor establishes and funds a trust and the distributions from the trust will be paid to the foundation and/or other beneficiaries during the term of the trust. The payments are a percentage of the fair market value of the trust assets.

f. Charitable gift annuities—similar to a charitable remainder annuity trust, except that no trust agreement exists. A donor transfers assets to the foundation with the agreement that the foundation will make payments to a designated beneficiary(ies) for a certain period of time or until the death of the beneficiary(ies).

g. Pooled life income funds—an arrangement whereby multiple donors’ life income gifts are pooled and invested as a group. Each donor is assigned a certain number of units, based on the amount contributed, and income earned by the investments is paid based on the number of assigned units. When the donor dies, the value of the units is released to the foundation.

h. Life interests in real estate—the foundation receives a contribution of real estate and the donor retains the right to use the real estate until his or her death.

i. Other (please describe:)

j. There are some split-interest agreements for which the foundation does not have the information necessary to select a type. (If checked, proceed to Question FG1A. If not, proceed to Question FG2.)

**FG1A.** What information is lacking about the split-interest agreements that prevents the foundation from categorizing the split-interest agreements into a type?

**FG2.** Does your entity or the foundations that follow GASB standards include any disclosures about the split-interest agreements in the financial statements?

- Only the governmental entity includes these disclosures. (Go to Question FG2A only)
- Only the foundations that follow GASB standards include these disclosures. (Go to Question FG2B only)
- Both the governmental entity and the foundations that follow GASB standards include these disclosures. (Go to Questions FG2A and FG2B)
Neither the government entity nor the foundations that follow GASB standards include these disclosures. (Go to Question FG3)

**FG2A.** What information does your entity disclose in the notes to the financial statements about the split-interest agreements?

**FG2B.** What information do the foundations that follow GASB standards disclose in the notes to the financial statements about split-interest agreements?

**FG3.** Do you currently receive or obtain any information about the fair value of the beneficial interests in split-interest agreements that are held in trust by others?

- Receive information on all of them.
- Receive information on some, but not all.
- Receive no information. (Proceed to Question FG4)

**FG3A.** What information do you receive about the fair value of the foundation’s beneficial interests in split-interest agreements that are held in trust by others?

**FG3B.** On a scale of 1 to 5—with 1 being not significant at all and 5 being very significant—how would you describe the costs of obtaining the information for the fair value of the beneficial interests in split-interest agreements that are held in trust by others?

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(if 4 or 5 is selected proceed to Question FG3BA)

**FG3BA.** What makes the costs of obtaining information for the fair value of all of the beneficial interests in split-interest agreements that are held in trust by others significant/very significant?

**FG4.** To the best of your knowledge, how significant is the total of all beneficial interests in split-interest agreements that are held in trust by others that you receive or obtain information about, relative to the total of all assets of the governmental entity?

- 0%-5% of total assets
- 6%-10% of total assets
- 11%-20% of total assets
- 21%-50% of total assets
- More than 50% of total assets
• Do not know

Questions GE1–GE5 only relate to governmental entities that have direct beneficial interests in trusts (not through a foundation).

GE1. Is your governmental entity a beneficiary of split-interest agreements in which the donor has no ability to change the beneficiaries?
• Yes
• No (End of survey)

GE2. Which of the following types of split-interest agreements does your governmental entity have a beneficial interest in? (check all that apply)

a. Charitable lead annuity trusts—an arrangement whereby a donor funds a trust with certain payments to be made to the governmental entity over time. The payments are fixed in terms of dollars.

b. Charitable lead unitrusts—an arrangement whereby a donor funds a trust with certain payments to be made to the governmental entity over time. The payments are a fixed percentage of the trust’s fair market value.

c. Perpetual trusts held by a third party—an arrangement whereby a donor placed funds with a third party as a trustee with the stipulation that the governmental entity receive, in perpetuity, the income from the trust.

d. Charitable remainder annuity trusts—an arrangement whereby a donor establishes and funds a trust and the distributions from the trust will be paid to the governmental entity and/or other beneficiaries during the term of the trust. The payments are fixed in terms of dollars.

e. Charitable remainder unitrusts—an arrangement whereby a donor establishes and funds a trust and the distributions from the trust will be paid to the governmental entity and/or other beneficiaries during the term of the trust. The payments are a percentage of the fair market value of the trust assets.

f. Charitable gift annuities—similar to a charitable remainder annuity trust, except that no trust agreement exists. A donor transfers assets to the governmental entity with the agreement that the governmental entity will make payments to a designated beneficiary(ies) for a certain period of time or until the death of the beneficiary(ies).

g. Pooled life income funds—an arrangement whereby multiple donors’ life income gifts are pooled and invested as a group. Each donor is assigned a certain number of units, based on the amount contributed, and income earned by the investments is paid based on the number of assigned units. When the donor dies, the value of the units is released to the governmental entity.
h. Life interests in real estate—the governmental entity receives a contribution of real estate and the donor retains the right to use the real estate until his or her death.

i. Other (please describe:)

j. There are some split-interest agreements for which the governmental entity does not have the information necessary to select a type. (If checked, proceed to Question GE2A. If not checked, proceed to Question GE3.)

**GE2A.** What information is lacking about the split-interest agreements that prevents your governmental entity from categorizing the split-interest agreements into a type?

**GE3.** Do you disclose information about the split-interest agreements in the notes to your financial statements?

a. Yes

b. No (Proceed to Question GE4)

**GE3A.** What information do you disclose in the notes to your financial statements about the split-interest agreements?

**GE4.** Do you currently receive or obtain any information about the fair value of the governmental entity’s beneficial interests in split-interest agreements that are held in trust by others?

a. Receive information on all of them.

b. Receive information on some, but not all.

c. Receive no information. (Proceed to Question GE5)

**GE4A.** What information do you receive about the fair value of the governmental entity’s beneficial interests in split-interest agreements that are held in trust by others?

**GE4B.** On a scale of 1 to 5—with 1 being not significant at all and 5 being very significant—how would you describe the costs of obtaining the information for the fair value of the beneficial interests in split-interest agreements that are held in trust by others?

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(if 4 or 5 is selected proceed to Question GE4BA)
**GE4BA.** What makes the costs of obtaining information for the fair value of all of the beneficial interests in split-interest agreements that are held in trust by others significant/very significant?

**GE5.** To the best of your knowledge, how significant is the total of all beneficial interests in split-interest agreements that are held in trust by others that you receive or obtain information about, relative to the total of all assets of the governmental entity?

- k. 0%-5% of total assets
- l. 6%-10% of total assets
- m. 11%-20% of total assets
- n. 21%-50% of total assets
- o. More than 50% of total assets
- p. Do not know