FLORIDA GOVERNMENT FINANCE OFFICERS ASSOCIATION, INC.
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September 15, 2015

Mr. David R. Bean, Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Vía email: director@gasb.org

RE: Comment on the Exposure Draft related to Project #3-26E Accounting and Financial Reporting for Irrevocable Split-Interest Agreements

Dear Mr. Bean:

On behalf of the Florida Government Finance Officers Association (FGFOA), we are pleased to respond to the Government Accounting Standard Board's (GASB) Invitation to Comment on the Exposure Draft related to Project #3-26E Accounting and Financial Reporting for Irrevocable Split-Interest Agreements. These comments were prepared based on a review by the FGFOA members, its Technical Resources Committee, and the Board of Directors.

We understand that the primary objective of this Statement is to improve accounting and financial reporting by providing recognition and measurement guidance for irrevocable split-interest agreements. We further understand that another objective of this Statement is to enhance the transparency and decision-usefulness of general purpose external financial reports, and their value for assessing accountability, by more clearly identifying resources that are available to a government.

Government is Intermediary

Recognition:
We concur that if a government is the intermediary and a beneficiary that the government should recognize assets, liabilities, and deferred inflows of resources when the agreement is executed and receives the resources. A liability should be recognized for the portion of the donated assets that will be distributed to other beneficiaries and a deferred inflow of resources recognized for the portion of the donated assets that will unconditionally benefit the government.

Asset Measurement:
We concur that donated assets received pursuant to irrevocable split interest agreements should be measured and, if applicable, remeasured in accordance with existing standards.

Government is Remainder Interest Beneficiary

Recognition:

We concur that when a government is the remainder interest beneficiary that it should recognize assets for resources received, a liability for the lead interest that is assigned to other beneficiaries, and a deferred inflow of resources for the government's unconditional interest.

Liability:
We concur that the liability should be measured based on the stream of payments that is expected to be provided to other beneficiaries based on an established valuation technique and that the assumption that should be considered include (a) the payment provisions of the agreement, (b) estimated rate of return of the assets, (c) mortality rate if the term is life-contingent, and (d) the discount rate if a present value technique is used.

Disbursement to Other Beneficiaries:
We concur that if the amount recognized for the liability has not been discounted, disbursements to other beneficiaries should reduce the liability. Further, if the amount recognized for the liability has been discounted, a portion of the disbursement should be allocated to the liability and the reminder portion of the disbursement should be reported as interest expense/expenditure in resource flows statements. Also that related assets should be reduced.

We concur that if the government makes disbursements in excess of the estimated liability prior to the termination of the agreement, the deferred inflow of resources should be reduced for the amount of each of the subsequent disbursements made to other beneficiaries until the termination of the agreement.

We concur that the liability should generally be reported at settlement amount throughout the term of the agreement and that if the term of the agreement is life-contingent, mortality adjustments should be considered. Further, if a significant adjustment is necessary at the financial reporting date, the adjustment should be recognized in resource flows statements as an increase or reduction of revenue, as appropriate.

We concur that the deferred inflow of resources (for the remainder trust) should be measured initially as the difference between the assets associated with the agreement and the liability to the other beneficiaries and should be remeasured at each financial reporting date as the difference between the carrying value of the assets associated with the agreement and the carrying value of the related liability at that date with the change recognized in resource flows statements as an increase or reduction of revenue, as appropriate.

We concur that at the termination of the agreement, the amount reported as a deferred inflow of resources associated with the agreement should be recognized as revenue and the elimination of any remaining liability should be recognized as a gain.

Government is the Lead Interest Beneficiary

Recognition:
We concur that when a government is the lead interest beneficiary that it should recognize assets for resources received, a deferred inflow of resources for the government's unconditional interest, and a liability for the remainder interest that is assigned to other beneficiaries.

Deferred Inflow of Resources:
We concur that the deferred inflow of resources should be measured based on the stream of payments that is expected to be provided to government based on an established valuation technique that takes into account the specific provisions in the agreement as well as the risks implied and that the assumption that should be considered includes (a) the payment provisions of the agreement, (b) estimated rate of return of the assets, (c) mortality rate if the term is life-contingent, and (d) the discount rate if a present value technique is used.

Disbursement to Government:
We concur that if the amount recognized for the deferred inflow of resources has not been discounted, disbursements for the government's benefit should reduce the assets related to the agreement and the related deferred inflow of resources. Revenue should be recognized for the disbursement from the agreement to the government. Further, if the amount recognized for the deferred inflow of resources has been discounted, a portion of the disbursement should be allocated to the related deferred inflow of resources (thereby reducing the deferred inflow of resources) and the remaining portion of the disbursement should be reported as interest revenue in resource flows statements.

We concur that if the disbursements for the benefit of the government exceed the estimated deferred inflow of resources prior to the termination of the agreement, the liability to other beneficiaries should be reduced for the amount of each subsequent disbursement until the termination of the agreement.

We concur that the deferred inflow of resources should generally be reported at settlement amount throughout the term of the agreement and that if the term of the agreement is life-contingent, mortality risk adjustments should be considered. Further, if a significant adjustment is necessary at the measurement date, the adjustment should be recognized in resource flows statements as an increase or reduction of revenue, as appropriate.

We concur that the liability (for the remainder interest) should be measured initially as the difference between the assets associated with the agreement and the deferred inflow of resources and should be remeasured at the financial reporting date as the difference between the carrying value of the assets associated with the agreement and the carrying value of the related deferred inflow of resources at that date with the change recognized in resource flows statements as an increase or reduction of revenue, as appropriate.

We concur that at the termination of the agreement, when the assets are transferred to the remainder interest beneficiaries, the liability and any remaining deferred inflow of resources should be eliminated.

Life-Interests in Real Estate

Recognition:
We concur that when a government is the lead interest beneficiary that it should recognize a capital asset or investment depending on terms of the agreement and management's intent at the time of donation (land held for future use versus land used for resale) and that a liability be recorded if the government assumes obligations to sacrifice financial resources under terms of the agreement. We also believe that the wording and examples included in B14 regarding the determination of intent on donor–imposed restrictions be included in paragraph 27.

Deferred Inflow of Resources:
We generally concur with the deferred inflow of resources. However, regarding the measurement of deferred inflow of resources, it is not apparent how the splitting of the inflow into two components (as indicated in Paragraphs 29 and 30) will benefit financial statement users. Paragraph 29 indicates that one component of the deferred inflow is to be measured as the present value of estimated rent payments. Paragraph 30 indicates that a separate deferred inflow of resources should be recognized for the remainder interest in the asset and indicates that the amount is measured based upon the difference between the value of the donated asset less the related liability (if applicable) and deferred inflow related to the present value of estimated rent payments as calculated in Paragraph 29, which essentially means that the second component of deferred inflow is a plug amount. Since the total of the two deferred inflow amounts is equal to the difference between the asset value and associated liability, which is essentially a plug amount, it is not apparent how much value is provided to

financial statement users by further subdividing the deferred inflow plug amount into two components.

Termination of Agreement:
We concur that at the termination of the agreement, revenue should be recognized for the deferred inflow of resources representing the amount of remainder interest.

A Third Party is the Intermediary

Recognition:
We concur that when a government is not the intermediary of an irrevocable split-interest agreement, an asset and deferred inflow of resources should be recognized when the government becomes aware of the agreement and has sufficient information to measure the beneficial interest. We concur with the asset recognition criteria in paragraph 34.

Measurement:
We concur that the asset initially be measured at fair value with an offsetting deferred inflow of resources with remeasurement for changes in fair value at each financial reporting date with changes recognized in the resource flows statements and revenue and reduction of revenue, as applicable.

Distribution to Government:
We concur that any distribution of the lead interest from the third party intermediary to the government beneficiary should reduce the carrying value of the asset with revenue being recognized and corresponding reduction of the deferred inflow.

We concur that, if the government is entitled to a remainder interest, the asset should be reduced at the termination of the agreement for the amount received with corresponding revenue recognition and deferred inflow of resources reduction equal to the amount of the distribution, which should result in elimination of any remaining asset and related deferred inflow of resources associated with the beneficial interest.

We would like to thank the GASB for their efforts in preparing the proposed exposure draft and for the opportunity to respond. Feel free to contact me at (407) 836-5719 or barry.skinner@occompt.com.

Sincerely,

Barry Skinner, CPA, CGFO, CPFO
President