

Original Pronouncements ↴

Statements of the Governmental Accounting Standards Board (GASBS) ↴

# GASBS 21—Accounting for Escheat Property

## Status

**Issued:** October 1993

**Effective Date:**

- For periods beginning after June 15, 1994

**Affects:**

- Supersedes NCGAI 9, ¶11
- Amends AICPA SOP 77-2, ¶4

**Affected by:**

- Paragraph 3 amended by GASBS 34, ¶6 and GASBS 37, ¶3
- Paragraph 4 amended by GASBS 34, ¶69 and ¶72; superseded by GASBS 37, ¶3
- Paragraph 5 amended by GASBS 34, ¶6 and GASBS 37, ¶3
- Paragraph 6 amended by GASBS 34, ¶69; superseded by GASBS 37, ¶3

**Primary Codification Section Reference:** [E70](#)

## Summary

This Statement establishes standards for the fund type to be used to report escheat property and for reporting liabilities and interfund transfers relating to escheat property. An escheat is the reversion of property to a governmental entity in the absence of legal claimants or heirs.

This Statement requires escheat property generally to be reported in either an expendable trust fund or the fund to which the property ultimately escheats (the “ultimate fund”). Escheat revenue should be reduced and a fund liability reported to the extent that it is probable that escheat property will be reclaimed and paid to claimants. Payments to claimants should reduce the liability.

If escheat property is initially reported in an expendable trust fund, amounts transferred to the ultimate fund should be reported as an operating transfer. If, as a result of the transfer, the remaining assets of the expendable trust fund are less than the liabilities of that fund, the difference should be reported as an “advance to” in the expendable trust fund and an “advance from” in the ultimate fund. If, however, the escheat assets of the expendable trust fund exceed the liabilities of that fund, the difference should be reported as fund balance.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 1994. Earlier application is encouraged.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including public benefit corporations and authorities, public employee retirement systems, governmental utilities, governmental hospitals and other healthcare providers, and governmental colleges and universities. [Paragraph 3](#) discusses the applicability of this Statement.

## Introduction

1. An escheat is the reversion of property to a governmental entity in the absence of legal claimants or heirs. The laws of many governmental entities provide that a rightful owner or heir can reclaim escheat property into perpetuity, provided the claimant can establish his or her right to the property. This does not necessarily mean that governments hold all escheat property into perpetuity. Because large portions of escheat property are never reclaimed, most governments use some of the property to help finance either their general or specific operations. Many governmental entities, for example, require that all escheat property over a specific dollar amount be transferred from an escheat fund to the general fund. (In this case, the general fund may be referred to as the fund to which the property ultimately escheats, or the “ultimate fund.”) However, some governmental entities hold the entire amount of escheat property into perpetuity, using only the earnings on that property to help finance their operations.
2. ♦ National Council on Governmental Accounting (NCGA) Interpretation 9, *Certain Fund Classifications and Balance Sheet Accounts*, provides that “. . . escheat property should be accounted for in either an Expendable Trust Fund or the fund to

which the property ultimately escheats” and that “. . . fund balance should be reserved for that portion of the escheat property which under law is held in perpetuity for its owners” (paragraph 11). A question has been raised whether the intent of that standard is that the *entire* amount of unclaimed property that has ever escheated to a governmental entity (but that has not subsequently been reclaimed) should be reported as reserved fund balance. This Statement changes the manner in which governmental entities should report the escheat property that will be reclaimed and paid to claimants.

# Standards of Governmental Accounting and Financial Reporting

## Scope and Applicability of This Statement

- 3. This Statement establishes standards for the fund type to be used to report escheat<sup>1</sup> property and for reporting liabilities and interfund transfers relating to escheat property. The provisions of this Statement apply to all state and local governmental entities. This Statement supersedes NCGA Interpretation 9, paragraph 11.

## Accounting for Escheat Property

- 4. Escheat property generally should be reported in either an expendable trust fund or the fund to which the property ultimately escheats (the “ultimate fund”). Escheat property held for another governmental entity should be reported in an agency fund or in the fund in which escheat property is otherwise reported, offset by a liability.
- 5. Escheat revenue should be reduced and a fund liability reported to the extent that it is probable that escheat property will be reclaimed and paid to claimants. Payments to claimants should reduce the liability. The liability should represent the best estimate of the amount ultimately expected to be reclaimed and paid, giving effect to such factors as previous and current trends in amounts reclaimed and paid relative to amounts escheated, and anticipated changes in those trends. (This liability may differ from the amount specified in law to be separately held for payments to claimants.)
- 6. If escheat property is initially reported in an expendable trust fund, amounts transferred to the ultimate fund should be reported as an operating transfer. If, as a result of the transfer, the remaining assets of the expendable trust fund are less than the liabilities of that fund, the difference should be reported as an “advance to” (an asset) in the expendable trust fund and an “advance from” (a liability) in the ultimate fund. On the other hand, if the escheat assets of the expendable trust fund exceed the liabilities of that fund, the difference should be reported as fund balance.

## Effective Date and Transition

- 7. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 1994. Earlier application is encouraged. Accounting changes adopted to conform to the provisions of this Statement should be applied retroactively, if practical, by restating financial statements for all prior periods presented. If restatement of financial statements for prior periods presented is not practical, the cumulative effect of applying this Statement, if any, should be reported as a restatement of beginning fund balance or retained earnings, as appropriate, for the earliest period restated. In the period this Statement is first applied, the financial statements should disclose the nature of any restatement and its effect. Also, the reason for not restating prior periods presented should be explained.

**The provisions of this Statement need not be applied to immaterial items.**

*This Statement was adopted by unanimous vote of the five members of the Governmental Accounting Standards Board:*

James F. Antonio, *Chairman*  
 Martin Ives, *Vice-Chairman*  
 Robert J. Freeman  
 Barbara A. Henderson  
 Edward M. Klasny

## Appendix A: Background Information

- 8. This project was added to the Board's agenda after the Board concluded, as the result of requests from various state governments for Board reconsideration of the previous standard, that a literal interpretation of NCGA Interpretation 9, paragraph 11, could lead to an illogical conclusion. That paragraph states in part: “. . . fund balance should be reserved for that portion of the escheat property which under law is held in perpetuity for its owners.” This sentence could be interpreted

as a requirement to reserve fund balance into perpetuity for the entire amount ever escheated to a governmental entity (based on the legal right of claimants to claim the property into perpetuity) less amounts previously reclaimed. However, the entire amount will never be reclaimed. On the other hand, the sentence also could be interpreted as requiring a fund balance reservation for only the dollar amount required by law to be held in an escheat fund. Just as the first interpretation could severely overstate the amount that might ultimately be reclaimed and paid, so might the second interpretation lead to a significant understatement.

9. On May 17, 1993, the Board issued an Exposure Draft (ED) of a proposed Statement, *Accounting for Escheat Property*. The Board received fifty-three comment letters on the ED, a large majority of which supported its provisions. Respondents generally believe that previous standards need clarification or change and that the provisions of this Statement are reasonable, recognize substance over form, and will not present implementation problems.

## Appendix B: Basis for Conclusions

10. This appendix discusses factors considered by Board members in reaching the conclusions in this Statement. It includes discussion of the alternatives considered and the Board's reasons for accepting some and rejecting others. Individual Board members gave greater weight to some factors than to others.

### Nature of Escheat Property

11. The most significant factor considered by the Board in developing this Statement is the nature of escheat property. As a practical matter, for most governmental entities, escheat property consists of two elements: (a) amounts that will be reclaimed by rightful owners or their heirs and (b) amounts that will never be reclaimed and instead will be used by the governmental entity to help finance its activities. This is so even though the laws of many governmental entities permit escheat property to be reclaimed into perpetuity. In essence, once the property escheats to the governmental entity, the entity has an accounting liability for the amounts that ultimately will be reclaimed and paid. Thus, the *accounting* liability (which takes into consideration the probability of payment) represents that portion of the *legal* liability (which exists into perpetuity) that is expected to be reclaimed and paid.

### Calculation of the Liability

12. Many governmental entities require that a specific dollar amount or a specific percentage of the year's escheats be retained in an escheat fund for payment to claimants, and that the balance be transferred to the general fund or some other fund to help finance the entity's activities. The amount retained in the escheat fund may or may not bear a close relationship to the amount ultimately expected to be reclaimed and paid.
13. For entities whose laws provide that a claim against escheat property may be made into perpetuity, the liability to claimants is the amount expected to be reclaimed and paid (whenever that claim is made and paid) against property that has escheated to the entity (whenever the escheat occurred). One way to estimate the liability is to analyze over a period of years the subsequent claims experience against escheat property collected in a particular year. This could be done for several years, and the resulting annual rates of claims payout versus escheats collected in a given year could be applied to escheat collections for a period of years before the balance sheet date to establish the liability as of the balance sheet date. The same procedure could be used to calculate the liability even if a legal limitation is imposed on the number of years over which escheat property may be reclaimed.

### Reporting Escheat Revenue and Liabilities

14. This Statement changes previous standards by requiring escheat amounts reclaimed and paid to be reported as a change in the escheat liability rather than as revenue and expenditures. The accounting required by this Statement is consistent, for example, with the current accounting for income taxes, for which refunds are reported as a liability and a reduction of revenue. The Board believes that the escheat amounts that a governmental entity holds for and returns to claimants do not constitute a revenue and subsequent expenditure.
15. Most ED respondents agree with reporting the claimant liability as a fund liability. However, a few questioned that reporting, with some suggesting that (or questioning whether) it would be more appropriate to report the amount as a general long-term debt account group (GLTDAG) liability. The Board believes that this liability should be reported in the fund for the following reasons. First, the liability arises from the collection of resources that belong to others and that do not represent revenue to the governmental entity. The governmental entity is, in essence, holding those resources as an agent for the claimants, and the fund liabilities match the related assets. Second, the resources associated with the claimant liability are or have been reported as fund resources—as expendable available financial resources—and thus the liability, which is payable with expendable available financial resources, should be reported as a fund liability.
16. Some respondents to the ED questioned whether fund balance relating to escheat property should be reserved. The Board does not believe that specific guidance regarding fund balance reservations for escheat property is needed. The Board believes that accounting standards and an entity's policies for reporting fund balance reservations should be adequate in this regard.

- 17. This Statement does not address issues relating to when noncash escheat property should be reported as assets or when escheat revenue should be recognized. Although some respondents to the ED asked that the Board provide accounting guidance in these areas, the Board continues to believe that those issues are beyond the scope of this project. The Board does not intend for this Statement to change the timing of recognition of escheat property or escheat revenue.

## Implications of Amounts Transferred to the Ultimate Fund

- 18. As previously noted, the liability measured in accordance with this Statement may not bear a close relationship to the amount required by law to be retained in an escheat fund. The amount transferred to the fund to which the property ultimately escheats may cause the liabilities reported in the escheat fund to exceed its assets. If so, the excess of the escheat fund liabilities over its assets should be reported as an "advance to" the ultimate fund, and the ultimate fund should report an "advance from" the escheat fund. The Board concluded that, in essence, the ultimate fund has "borrowed" against future years' escheats and that, to report that borrowing, it is more appropriate for the ultimate fund to report an "advance from" the escheat fund than for the escheat fund to report a deficit.
- 19. The opposite also may occur, and the escheat fund may have a net asset. This often will occur where there are time restrictions placed on the transfer of escheat property to the ultimate fund. In those situations, the difference between escheat fund assets and its liabilities should be reported as fund balance in the escheat fund.

## Fund Type Classification

- 20. The Board considered alternatives for the fund types in which escheat property should be accounted for and reported, including expendable trust funds, nonexpendable trust funds, agency funds, and the fund to which the property ultimately escheats (the ultimate fund).
- 21. In arriving at its conclusion, the Board was concerned primarily with the nature of escheat property, as discussed in [paragraph 11](#). That is, escheat property generally consists of two elements: a liability to claimants and amounts that will be used by the governmental entity. The Board believes that, given these elements, it would be appropriate to report escheat activity and balances in the ultimate fund, which usually is the general fund. The reasons are that (a) financial reporting is simplified by reducing the number of funds being reported on, (b) this reporting avoids reporting interfund transfers between the escheat fund and the ultimate fund, and (c) the entire revenue from escheat collections would be fully reported in the ultimate fund, regardless of the amount actually transferred from the escheat fund.
- 22. On the other hand, the Board recognizes that (a) many governmental entities require the use of an escheat fund to account for the holding of escheat property, (b) many entities (in accordance with previous standards) use an expendable trust fund for that purpose, and (c) escheat revenues available to the ultimate fund often are a relatively small portion of the total revenues of that fund. For these reasons, the Board decided to continue to allow the escheat property to be reported in either an expendable trust fund or the ultimate fund.
- 23. The Statement also requires that property held for another governmental entity should be reported in an agency fund or in the fund in which escheat property is otherwise reported, offset by a liability. Previous standards provided for the use of an agency fund in situations in which, for example, local governments collect escheat property for remittance to the state government. Some respondents to the ED questioned the accounting for escheat property that will be remitted to another jurisdiction under a reciprocal agreement. The Board had not intended to require the use of an agency fund in such situations. Therefore, the Statement provides that a government's liability to remit escheat property to another government under a reciprocal agreement can be reported in the fund that otherwise reports escheat property.

## ◆ Appendix C: Illustrative Examples

- 24. This appendix illustrates the reporting required by this Statement. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of this Statement or to indicate the Board's endorsement of the policies or practices shown. Application of the provisions of this Statement may require reporting other than that illustrated here. This appendix uses the same assumptions for both examples.

### Assumptions

State law requires that receipts of abandoned and unclaimed property be received into the escheat fund and that the year-end balance of that fund equal \$10. "Excess" receipts are to be transferred to the general fund. Balances and activities determined in accordance with this Statement are:

Year-end balances, 19X1

Escheat assets	\$ 10
Amount expected to be repaid to claimants	10
Activity, 19X2	
Escheat receipts	100
Escheat disbursements to claimants	20
Cash remitted to general fund	80
Year-end balances, 19X2	
Escheat assets	10
Amount expected to be repaid to claimants	12

### ◆ Example 1: Reporting in an Expendable Trust Fund

For financial reporting purposes, the governmental entity presents escheat activity and balances in an expendable trust fund.

<b>Expendable Trust Fund 19X2</b>			
<b>Statement of Revenues, Expenditures, and Changes in Fund Balance</b>			
Revenue		(\$100 receipts less \$20 reclaimed less \$2 increase in amount expected to be repaid to claimants)	
	\$78		
Operating transfer-out		(Cash remitted of \$80 less \$2 excess of escheat fund liabilities over escheat fund assets)	
	<u>.78</u>		
Excess of revenues and other sources over expenditures and other uses	<u>\$ 0</u>		
<b>Balance Sheet</b>			
Escheat assets	\$10	Claimant liability	\$12
Advance to general fund	<u>2</u>	Fund balance	<u>0</u>
Total assets	<u>\$12</u>	Total liabilities and fund balance	<u>\$12</u>
<b>General Fund 19X2 (Relating to Escheat Activity and Balances)</b>			
<b>Statement of Revenues, Expenditures, and Changes in Fund Balance</b>			
Operating transfer-in	\$78	(\$80 cash transferred less \$2 excess of escheat fund liabilities over escheat fund assets)	
<b>Balance Sheet</b>			
		Advance from escheat fund	\$ 2
		Fund balance	<u>78</u>
Assets	<u>\$80</u>	Total liabilities and fund balance	<u>\$80</u>

### ◆ Example 2: Reporting in the Ultimate Fund

For financial reporting purposes, the governmental entity presents escheat activity and balances in the general fund (the ultimate fund).

**General Fund 19X2 (Relating to Escheats Activity and Balances)**

**Statement of Revenues, Expenditures, and Changes in Fund Balance**

Revenue	\$78	(\$100 receipts less \$20 reclaimed less \$2 increase in amount expected to be repaid to claimants)
---------	------	-----------------------------------------------------------------------------------------------------

**Balance Sheet**

		Claimant liability	\$12
		Fund balance	<u>78</u>
Assets	<u>\$90</u>	Total liabilities and fund balance	<u>\$ 90</u>

---

<sup>1</sup>An escheat is the reversion of property to a governmental entity in the absence of legal claimants or heirs. Property escheats from the estate of a person who dies intestate without any known or discoverable heirs at the time the estate is settled. For the purposes of this Statement, escheat property also includes abandoned and unclaimed property. Abandoned and unclaimed property results from the failure of a person who is legally entitled to property to make a valid claim against the holder of the property within a prescribed period of time. For example, a bank account in which there has been no activity for a certain period of time may be deemed by law to have been abandoned; it would revert to a governmental entity after the bank, following prescribed procedures, has been unable to locate the rightful owner.