GASB 84
Fiduciary Activities

Steve Piesko, CPA
Principal
GASB 84 – Fiduciary Activities:

• Effective Date: Reporting period beginning after December 15, 2018

• Provides clarity on what is considered a trust and agency account
• Key determination is control, focus is generally on:
  • whether the government is controlling the assets of the fiduciary activity, and
  • beneficiaries with whom a fiduciary relationship exists

• If the Governmental Entity has determined that they have control, it will be reported in the financial statements as a governmental activities fund (general fund or special revenue fund).
• Each instance will need to be analyzed individually, so start now.
GASB 84 – Fiduciary Activities:

FLOWCHARTS FOR EVALUATING AND REPORTING POTENTIAL FIDUCIARY ACTIVITIES

• The following flowcharts are intended to aid in the application of the provisions of this Statement. The flowcharts are nonauthoritative and do not cover all aspects of this Statement. They should not be used in place of the Statement itself.
When Should a Government Report Assets in a Fiduciary Fund?

Four paths to making this determination:

1. Are the assets held by a component unit?
   - Yes
   - No

2. Are the assets held for a pension or OPEB arrangement?
   - Yes
   - No

   - Yes
   - No

   1
   2
   3
   4
Other Component Units Are Fiduciary if...

They have one or more of the following characteristics:

- Assets are:  
  - Administered through a trust in which government is not a beneficiary  
  - Dedicated to providing benefits, AND  
  - Legally protected from the creditors of government

- Assets are for the benefit of individuals  
- Assets are not derived from government’s provision of goods or services to the individuals AND  
- Government does not have administrative involvement or direct financial involvement with the assets

- Assets are for the benefit of organizations/governments not part of the reporting entity AND  
- Assets are not derived from government’s provision of goods or services to them
All Other Activities Are Fiduciary if...

- Arrangement meets one or more of the criteria in AND
- The government **controls** the assets AND
- Those assets are *not* derived either:
  - Solely from the government’s own-source revenues, or
  - From grants, with the exception of pass-through grants for which the government does not have administrative or direct financial involvement
Fiduciary Fund Classes

| Pension and other employee benefit trust fund | Investment trust fund | Private-purpose trust fund | Custodial fund |

Trust agreement or equivalent arrangement should be present
GASB Exposure Draft – Q & A

Other Fiduciary Activities

4.17. Q—The chess club of a public high school is established in accordance with the school’s operating policies and is not legally separate from the high school. The club members organize and conduct fundraising activities to pay for the club’s annual tournament and other club activities during the school year. The proceeds from the fundraising activities are held in a separate bank account in the school’s name. In determining whether those resources controlled by the school are a fiduciary activity, are the assets held for the benefit of individuals as addressed in paragraph 11c(2) of Statement 84 (and thus require evaluation of whether the school has administrative involvement or direct financial involvement), or do they benefit an organization as addressed in paragraph 11c(3) of Statement 84 (and thus require evaluation of whether the club is part of the primary government)?

A—Assets are for the benefit of an organization if the benefits accrue to the organization as an institution, rather than to the individuals that constitute the organization. However, in this scenario, because the club is not legally separate from the primary government, it is not itself an institution. As a result, the provisions in paragraph 11c(2) of Statement 84 should be applied.
Assets are for the benefit of individuals

4.18. Q—A school board is responsible for establishing the fees charged by student clubs to their members. The clubs are not legally separate from the school district. Assuming that the school board has no other policies in place related to the disbursement of funds for various student clubs, does the school district have administrative involvement, as discussed in paragraph 11c(2) of Statement 84?

A—Yes. Footnote 1 of Statement 84 provides examples to consider in determining whether a government has administrative involvement. The establishment of fees related to the generation of funds is analogous from a revenue standpoint to the example provided of determining eligible expenditures. In other words, establishing specific guidelines on how the resources can be spent is analogous to establishing guidelines on the amount at which resources are set. In this scenario, the school board is establishing the amount at which fees are set, and, therefore, the school district does have administrative involvement and the criterion in paragraph 11c(2) of Statement 84 is not met.
Q—A student club is established in accordance with the school district’s operating policies. The club is not legally separate from the school district. The students of the club conduct fundraising events, the proceeds of which are deposited into a savings account controlled by the school district. The student club president, with the members of the club, establishes how the resources can be spent and approves disbursements from the account. Does the school district have administrative involvement, as discussed in paragraph 11c(2) of Statement 84?

A—No. Footnote 1 of Statement 84 provides examples to consider when determining whether a government has administrative involvement. In assessing whether a government has administrative involvement, a “substance versus form” consideration is appropriate. That is, the government’s role would have substance if the school board, school administrator, or faculty advisor (representative of the school) establishes how the resources can be spent through approved policies. In this scenario, the students (the beneficiaries) are establishing how the resources can be spent, and, therefore, the school district does not have administrative involvement and the criterion in paragraph 11c(2) of Statement 84 is met.
4.20. Q—Assume the same facts as in Question 4.19, except that the parents of the club members establish how the resources can be spent. In that scenario, does the school district have administrative involvement, as discussed in paragraph 11c(2) of Statement 84?

A—No. The school district does not have administrative involvement. The parents of the students (representatives of the beneficiaries) and not the school board, school administrator, or faculty advisor are establishing how the resources can be spent.
4.21. **Q**—A school district holds the funds raised by various student clubs, which are not legally separate from the school district. The funds are used to pay for various club activities during the year. **There is no school board or school administration policy related to the club’s activities and how the resources can be spent.** The disbursements from the aggregated club account are approved by the faculty advisor (who is representing the school district) assigned to each club. Approval, rejection, or modification of the spending is strictly at the discretion of the faculty advisor. Does the school district have administrative involvement, as discussed in paragraph 11c(2) of Statement 84?

**A**—Yes. The school district does have administrative involvement. The school district’s role is considered to be substantive because in the absence of an approved policy, the faculty advisor (who is acting in the capacity of a school representative) has the ability to reject, modify, or approve how the resources are spent. The faculty advisor’s approval is more than just a formality and is analogous to the example provided in footnote 1 of Statement 84 regarding the determination of eligible expenditures that are established by the government.
4.22. Q—A school board establishes and approves a policy related to the receipt, disbursement, and holding of funds for various student clubs and organizations that are not legally separate from the school district. The policy includes specific guidelines related to how the funds raised by the clubs and organizations can be spent. Does the school district have administrative involvement, as discussed in paragraph 11c(2) of Statement 84?

A—Yes. The school district does have administrative involvement. The school district’s role is considered to be substantive because the school has established specific guidelines on how the resources can be spent in an approved policy.

4.23. Q—Assume the same facts as in Question 4.22, except that the policy that applies to all clubs only addresses issues such as the authorized account signers and the prohibition of spending for illegal activities. Does the school district have administrative involvement, as discussed in paragraph 11c(2) of Statement 84?

A—No. The school district does not have administrative involvement. The school district’s role is not considered to be substantive because the school has not established specific guidelines regarding how the resources of the clubs and organizations can be spent.
Q—Assume the same facts as in Question 4.22, except that the state establishes specific guidelines on how the resources can be spent through administrative policy. Does the school district have administrative involvement, as discussed in paragraph 11c(2) of Statement 84?

A—Yes. The school district does have administrative involvement. The school district’s role is considered to be substantive because the school district is required to follow the specific guidelines established by the state, through legislation or policy, regarding how the resources can be spent.
Control of Assets

4.33. Q—The Touchdown Club is a legally separate 501(c)(3) association that has its own board comprised of parents of high school football players and other program supporters. The club is not a component unit of the school district. The funds raised by the association are not held in an account of the school district. In this scenario, is the school district controlling the assets of the club, as described in paragraph 12 of Statement 84, and if not, should the school district still report the club’s activities?

A—No. The control criteria in paragraph 12 of Statement 84 are not met because the school district is not holding the funds, nor do they have the ability to direct the use, exchange, or employment of the funds. Because the school district does not have control of the assets and the club is not a component unit, the club’s activities would not be reported in the financial statements of the school district.
GASB 84 – Fiduciary Activities:

ILLUSTRATION

• This appendix illustrates an example of the fiduciary fund financial statements for a hypothetical government. The statements are illustrative only and should not be considered authoritative. Management’s discussion and analysis, other statements that constitute basic financial statements, notes to financial statements, budgetary comparison schedules, and other required contents are not presented; thus, this set of statements does not meet the minimum requirements for basic financial statements and required supplementary information.
## GASB 84 – Fiduciary Activities:

### Government ABC

#### Statement of Fiduciary Net Position

<table>
<thead>
<tr>
<th>Fiduciary Funds</th>
<th>June 30, 20X2</th>
<th>(in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$184,351</td>
<td>$840,693</td>
</tr>
<tr>
<td>Receivables:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee</td>
<td>2,123</td>
<td></td>
</tr>
<tr>
<td>Employer</td>
<td>83,004</td>
<td></td>
</tr>
<tr>
<td>Taxes for other governments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest and dividends</td>
<td>175,402</td>
<td>12,166</td>
</tr>
<tr>
<td>Sale of investments</td>
<td>30,879</td>
<td></td>
</tr>
<tr>
<td>Total receivables</td>
<td>291,408</td>
<td>12,166</td>
</tr>
<tr>
<td>Investments at fair value:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term investments</td>
<td>2,268,960</td>
<td>241,645</td>
</tr>
<tr>
<td>Bonds, notes, mortgages, and preferred stock</td>
<td>14,115,391</td>
<td>804,576</td>
</tr>
<tr>
<td>Common stock</td>
<td>20,342,440</td>
<td></td>
</tr>
<tr>
<td>Real estate</td>
<td>3,408,145</td>
<td></td>
</tr>
<tr>
<td>International investments</td>
<td>1,723,951</td>
<td></td>
</tr>
<tr>
<td>Mutual funds</td>
<td>72,315</td>
<td>178,046</td>
</tr>
<tr>
<td>Pooled investment funds</td>
<td>23,128</td>
<td></td>
</tr>
<tr>
<td>Total investments</td>
<td>41,954,330</td>
<td>1,224,267</td>
</tr>
<tr>
<td>Securities lending collateral</td>
<td>1,746,544</td>
<td></td>
</tr>
<tr>
<td>Other assets</td>
<td>13,519</td>
<td>181</td>
</tr>
<tr>
<td>Total assets</td>
<td>44,190,152</td>
<td>2,077,307</td>
</tr>
</tbody>
</table>

#### LIABILITIES

| Accounts payable and other liabilities | 130,846 | 1,361 | 61,447 | 1,451 |
| Due to local governments               |          |      | 164,201 |      |
| Obligations under securities lending   | 1,346,544 |      |          |      |
| Other long-term liabilities            | 1,617 |      | 7,870 |      |
| Total liabilities                      | 1,479,007 | 1,361 | 69,317 | 165,652 |

#### NET POSITION

| Restricted for:                          |          |      |      |      |
| Pensions                                 | 29,897,802 |      |      |      |
| Postemployment benefits other than pensions | 12,813,343 |      |      |      |
| Pool participants                        |          | 2,075,946 |      |      |
| Individuals, organizations, and other governments |          | 886,024 | 99,842 |      |
| Total net position                       | $42,711,145 | $2,075,946 | $886,024 | $99,842 |
### GASB 84 – Fiduciary Activities:

#### Statement of Changes in Fiduciary Net Position

**Fiduciary Funds**

*for the Year Ended June 30, 20X2*

*(in thousands)*

<table>
<thead>
<tr>
<th></th>
<th>Pension (and Other Employee Benefit) Trust Funds</th>
<th>Investment Trust Funds</th>
<th>Private-Purpose Trust Funds</th>
<th>Custodial Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ADDITIONS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members</td>
<td>$297,846</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Employers</td>
<td>1,259,384</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Other plans</td>
<td>148,792</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Gifts and bequests</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Total contributions</td>
<td>$1,706,022</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Investment earnings:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net increase in fair value of investments</td>
<td>1,852,408</td>
<td>64,663</td>
<td>33,702</td>
<td></td>
</tr>
<tr>
<td>Interest, dividends, and other</td>
<td>1,416,448</td>
<td>58,465</td>
<td>30,378</td>
<td></td>
</tr>
<tr>
<td>Securities lending income</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total investment earnings</td>
<td>3,344,531</td>
<td>123,128</td>
<td>64,060</td>
<td></td>
</tr>
<tr>
<td>Less investment costs:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment activity costs</td>
<td>32,281</td>
<td>50,236</td>
<td>63</td>
<td></td>
</tr>
<tr>
<td>Securities lending costs</td>
<td>73,642</td>
<td>$</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>Net investment earnings</td>
<td>$3,239,008</td>
<td>72,892</td>
<td>64,017</td>
<td></td>
</tr>
<tr>
<td>Capital share and individual account transactions:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shares sold</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>Reinvested distributions</td>
<td>$</td>
<td>2,817,210</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shares redeemed</td>
<td>$</td>
<td>(2,776,843)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net capital share and individual account transactions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales tax collections for other governments</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>1,130</td>
<td>$</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>Total additions</td>
<td>4,946,160</td>
<td>186,151</td>
<td>261,275</td>
<td>1,812,586</td>
</tr>
<tr>
<td><strong>DEDUCTIONS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefits paid to participants or beneficiaries</td>
<td>1,963,047</td>
<td>$</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>Medical, dental, and life insurance for retirees</td>
<td>536,027</td>
<td>$</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>Refunds and transfers to other systems</td>
<td>170,514</td>
<td>$</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>Administrative expense</td>
<td>$19,920</td>
<td>43</td>
<td>293</td>
<td></td>
</tr>
<tr>
<td>Beneficiary payments to individuals</td>
<td></td>
<td>$</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>Payments of sales tax to other governments</td>
<td></td>
<td>$</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>Distributions to shareholders</td>
<td></td>
<td>$</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>Total deductions</td>
<td>2,689,508</td>
<td>72,892</td>
<td>211,222</td>
<td>1,811,413</td>
</tr>
<tr>
<td>Net increase (decrease) in fiduciary net position</td>
<td>2,256,652</td>
<td>113,259</td>
<td>50,053</td>
<td>1,175</td>
</tr>
<tr>
<td>Net position—beginning</td>
<td>42,711,145</td>
<td>$2,075,940</td>
<td>$866,024</td>
<td>$99,842</td>
</tr>
<tr>
<td>Net position—ending</td>
<td>$42,711,145</td>
<td>$2,075,940</td>
<td>$866,024</td>
<td>$99,842</td>
</tr>
</tbody>
</table>
Common Questions

• Scholarship Funds
  • Must be a separate legal trust to be considered a private purpose trust fiduciary fund
  • If not, is it a special revenue fund?
    • Legal determination will be necessary

• Fundraising for Donation
  • Likely special revenue due to administrative involvement
  • Public funds cannot be donated, are these public funds?
    • Legal determination will be necessary

• Gift Funds
  • Likely special revenue due to administrative involvement
  • Public funds cannot be gifted to others, are these public funds?
    • Legal determination will be necessary

• Boosters
  • Move them out!
Action Steps

• Review Policies and Procedures
  • Are they in line with actual processes?

• Assess Current Processes
  • Administrative involvement
    • Approving and modifying fund raising sources and expenditures or simply determining the legality?
  • Do these processes allow for the result desired under the new reporting standards?

• Assess Each Activity Individually
  • Fiduciary – private purpose trust or custodial
  • Governmental activities – general or special revenue fund
Questions?

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Auditing & Accounting Update
GASB 87, GASB 88, and Single Audit Update

May 17, 2019
Presented By Jamie Essenmacher and Tiffany Stacey, Plante Moran
GASB 87

Leases
GASB 87 – Leases

• Effective 6/30/2021 for School District financial statements

• Current Treatment
  • Operating Lease
  • Capital Lease

• GASB 87 Treatment
  • Single model for all leases > 12 months
  • Reported on the government wide statements
    ▪ “Right to Use” Intangible Lease Asset
    ▪ Lease Liability
  • Year of Implementation – Restatement of net position at 7/1/20
  • Financial statement disclosures
    ▪ Description of leases
    ▪ Lease assets recognized (gross and net)
    ▪ Schedule of future lease payments (including principal and interest)
GASB 87 – Leases

Accounting implications

• Governmental Fund level – **No change for current leases!**
  - Balance Sheet – continue to record payables when due
  - Statement of Rev & Exp – continue to record lease expense

• Government-wide, Internal Service and Enterprise Fund level
  - Statement of Net Position:
    - Lease Asset - Amortized
    - Lease Liability – Reduced as payments are made
  - Statement of Activities:
    - Lease Expense will be replaced with:
      - Amortization of Lease Asset
      - Interest Expense on Lease Liability

• Action Items:
  - Summarize current lease agreements
  - Understand the terms
GASB 87 – Leases

Example – Printer and Copier Leases

Facts: The School District leases its printers and copiers. The lease agreement is for a period of 36 months (3 years), with monthly lease payments of $10,500 per month.

• Pre-GASB 87 (Current Method)
  • Operating lease, no balance sheet impact
  • $10,500 monthly lease expense over 36 months

• Under GASB 87
  • The calculated Net Present Value of the lease is approximately $350k (using a 5% borrowing rate over 36 months)
  • Statement of Net Position
    • Lease Asset $350K
      • Amortized over 36 months
    • Lease liability $350K
      • Reduced by “principal” portion of lease payment
  • Statement of Activities
    • Monthly amortization expense of approximately $9,700
    • Interest expense decreasing over the term ($1,500 to $50 per month)
GASB 87 Webinar

Webinar: “GASB 87 Leases: What you need to know for successful implementation”
Date: June 6, 2019
Time: 2:00 pm – 3:00 pm
Registration:

www.plantemoran.com -> Menu -> View Webinars
-> GASB 87 Leases -> Register Here
GASB 88

Certain Disclosures Related to Debt
GASB 88 - Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements

• Effective: June 30, 2019 - Disclosure impact only!
• All debt disclosures must separate “direct borrowing/placements” from “other” debt
• New disclosure requirements include:
  ▪ Amount of unused lines of credit
  ▪ Assets pledged as collateral
  ▪ Significant debt terms
    ▪ Events of default with financial consequences
    ▪ Termination events with financial consequences
    ▪ Acceleration clauses

• Action Item:
  ▪ Summarize terms of non-bonded debt
GASB 88 - Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements

- Common debt disclosure implications for school districts
  - State Aid Anticipation Notes
    - Notes are collateralized by State Aid
    - Penalty interest rate if in default
    - State has discretion to accelerate repayment terms IF they have concerns (very subjective!)
  - Qualified Bonds
    - State can withhold state aid if it has to make a bond payment for the District
  - School Bond Loan Fund/School Loan Revolving Fund
    - Default late charge applies if District defaults OR fails to appropriately levy debt mills
    - State may withhold state aid if the District is in default
Single Audit
Single Audit - Update

Procurement Policy Reminder – for many Districts 2019 school year first full year of implementation.

• Did you finalize adoption as of 7/1/18? If yes are you currently following?
  ▪ Reminder of recent updates
    • Micro purchases threshold $10,000 (from $3,500)
    • Simplified acquisition threshold $250,000 (from $150,000)

• Auditors will be testing in accordance with the policies in place as of June 30, 2019

2019 Supplement vs MDE Audit Manual

• Compliance Supplement testing up to 6 compliance requirements
Single Audit - Update

- Revisions to the 2019 Data Collection Form (currently Draft)
  - Key changes expected
    - Date auditor’s report was received
    - Text of Findings, Corrective Action Plan, and SEFA Notes
    - CAP Text to be included on form

- Compliance Supplement Changes
  - Programs will have a max of 6 compliance categories

- Indirect costs
  - Focus of application of rate in Food Service Fund
  - Concern over direct charging costs normally included in the cost pool

- Special Ed Cluster
  - Excess cost requirement – still not required to be tested
  - Districts will be providing data via Catamaran
Single Audit – Update

- Child Nutrition Cluster
  - Paid Lunch Equity suspended for 1 year
  - Monitoring of food service fund balance in excess of 3 months operations, plan for reduction

- School Audit Manual
  - Review for updates, understanding what will be audited
  - Does not reflect the max of 6 compliance categories from the compliance supplement

- MDE Audit Alert
  - Review for updates
  - Consider new Yellow Book implications on non audit services received and impact on independence
Single Audit - Update

Government Auditing Standards (Yellow Book)

- 2018 Yellow Book effective 7.1.19
- Focus on transparency and accountability
- Threats or concerns over:
  - Auditor identified JE's
  - Account Reconciliations
  - GW-entries
  - Financial statements prep

- New application of determination of skill, knowledge, or experience.
Nonaudit Services

Independence considerations for preparing accounting records and financial statements

1. Is the nonaudit service preparing financial statements in their entirety from a client-provided trial balance or underlying accounting records?
   - Yes
     - Identify and apply safeguard(s)
   - No
     - Evaluate threat for significance
       - Is threat significant?
         - Yes
           - Independence impairment
             - Do not proceed
         - No
           - Document evaluation and proceed

2. Assess effectiveness of safeguard(s)
   - Is threat eliminated or reduced to an acceptable level?
     - Yes
       - Document nature of threat and any safeguards applied
       - Proceed
     - No
       - Independence impairment
         - Do not proceed

Source: GAO, GAO-18-568G