GASB Statement 84 – Fiduciary Activities

Presented by
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Principal

What & when?

Scope
Establishes criteria for identifying fiduciary activities and guidance on reporting those activities. Also, clarifies that stand-alone business-type activities should report fiduciary activities.

Timing
Effective for December 31, 2019 year-ends. Apply retroactively to all periods presented.
Why was GASB 84 necessary?

- GASB 34 required reporting of fiduciary funds
- To improve guidance on identification of fiduciary activities for accounting and financial reporting
- To improve consistency and comparability of fiduciary activity reporting
- To define and clarify fiduciary activities

What is the effect of GASB 84?

- Establishes criteria for identifying Fiduciary Activities based on:
  - Control of the assets
  - Who is the beneficiary of the assets
- Gives criteria for reporting Pension and OPEB arrangements
  - Most are already reported as fiduciary activities in fiduciary funds
  - MERS Retiree Health Funding Vehicle potential significant change
- Describes four fund types to be used in financial reporting
- Modifies the financial statements of fiduciary funds
Types of Fiduciary Funds

- Pension and OPEB Trust Funds
- Investment Trust Funds
- Private-Purpose Trust Funds
- Custodial Funds (New fund type, replaces Agency)

Types of fiduciary activities

- Fiduciary activities
  - Fiduciary component units
  - Pension and OPEB arrangements that are NOT component units
  - Other fiduciary activities
    - Pension and OPEB arrangements
    - Other arrangements
Types of fiduciary activities

- The first couple will not affect the majority of LEAs
- We will show a quick overview of those...
- ...And then spend more time on those Activity Funds
- That is where the main time and change will be for your Districts

Fiduciary activities flowchart

1. Is entity a component unit? \( \text{Yes} \) / \( \text{No} \)
2. Does the government control the assets? \( \text{Yes} \) / \( \text{No} \)
3. Assets held for pension or OPEB arrangement? \( \text{Yes} \) / \( \text{No} \)
4. Assets held for pension or OPEB arrangements? \( \text{Yes} \) / \( \text{No} \)
5. Do assets have certain characteristics? \( \text{Yes} \) / \( \text{No} \)
6. Activity \textit{not} a fiduciary fund
7. Activity reported in a fiduciary fund
8. Activity's assets not derived from certain revenues? \( \text{Yes} \) / \( \text{No} \)
Fiduciary activities flowchart

- Is entity a component unit? (15)
  - Yes
  - No
  - Does the government control the assets? (12)
    - No
    - Activity not a fiduciary fund
    - Yes
    - Assets held for pension or OPEB arrangement? (16)
      - No
      - Activity reported in a fiduciary fund
      - Yes
      - Do assets have certain characteristics? (68, 11c)
        - No
        - Assets held for pension or OPEB arrangement? (16)
          - No
          - Activity reported in a fiduciary fund
          - Yes
          - Activity's assets not derived from certain revenues? (12b, 13)

Fiduciary component units

<table>
<thead>
<tr>
<th>Legally separate entity</th>
<th>Board composition</th>
<th>Financial burden</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Pension/OPEB plans administered through trusts under GASB 67/74 are legally separate entities</td>
<td>- Retirement benefits administered through trusts may not have a traditional board</td>
<td>- Primary government considered to have a financial burden if legally obligated or has otherwise assumed obligation to make contributions to pension or OPEB plan</td>
</tr>
</tbody>
</table>
Evaluating Potential Fiduciary Component Units

• Answer to the Flowchart for majority will be NO for majority of School Districts

Pension/OPEB arrangements
(Note: This will not affect school district)

- Pension plan administered through a trust
  - GASB 67 ¶3

- OPEB plan administered through a trust
  - GASB 74 ¶3

- Non-trusted OPEB assets held by primary government entities for entities not part of the reporting entity
  - GASB 74 ¶359

- Non-trusted pension assets held by primary government entities for entities not part of the reporting entity
  - GASB 73 ¶116
Pension/OPEB relationships

• Since the majority of schools are under MPSERS, this will not affect districts significantly

Next Step

• When looking at your activity funds you will go on to Step 2.
Fiduciary activities flowchart

Control of assets

- Government holds the assets, or
- Government has the ability to direct the use, exchange, or employment of assets for benefit of specified or intended receipts
  
  - Government uses asset when it expends or consumes asset for benefit of others, outside of the government's provision of services to them
  
  - Appointing designee to act on its behalf does not alter the government's ability to direct the sue, exchange, or employment of assets
Fiduciary activities flowchart

- Is entity a component unit? (5)
  - Yes
    - Activity not a fiduciary fund
  - No
    - Assets held for pension or OPEB arrangements? (56)
      - Yes
        - Activity not a fiduciary fund
      - No
        - Do assets have certain characteristics? (58, 111c)
          - Yes
            - Activity not a fiduciary fund
          - No
            - Yes
              - Activity not a fiduciary fund

Assets not derived from certain revenues

- Assets associated with activity not derived (1) solely from the government's own-source revenue, or (2) from government-mandated or voluntary non-exchange transactions

- Government's own-source revenue
- Revenues generated by the government itself
  - Exchange and exchange-like (water and sewer charges)
  - Derived tax (sales and income tax) and imposed nonexchange (property tax) revenues
Evaluating Whether Activity is Derived from Government's Own Source Revenue

• Basic principle: the government cannot be a fiduciary for its own resources
• Consider:
  • Deposits
  • Retainages payable
  • Payroll withholding
  • Property taxes

Assets not derived from certain revenues

• Assets associated with activity not derived (1) solely from the government's own-source revenue, or (2) from government-mandated or voluntary non-exchange transactions
  • Except for pass-through grants for which the government does not have administrative or direct financial involvement (GASB 24 ¶15)
  • Examples:

<table>
<thead>
<tr>
<th>Administrative involvement</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Monitors secondary recipients for compliance with requirements</td>
<td></td>
</tr>
<tr>
<td>• Determines eligible secondary recipients</td>
<td></td>
</tr>
<tr>
<td>• Ability to exercise discretion on how funds are allocated</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Direct financial involvement</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Finances some program costs through grantor-imposed matching requirement</td>
<td></td>
</tr>
<tr>
<td>• Liable for disallowed costs</td>
<td></td>
</tr>
</tbody>
</table>
Fiduciary activities flowchart

Is entity a component unit? (§5)

- No
  - Does the government control the assets? (§12)
    - No
      - Activity **not** a fiduciary fund
    - Yes
      - Assets held for pension or OPEB arrangements? (§10)
        - Yes
          - Activity's assets not derived from certain revenues? (§11b, 13)
            - No
              - Activity reported in a fiduciary fund
            - Yes
          - Yes
            - Activity reported in a fiduciary fund
        - No
          - Do assets have certain characteristics? (§5, 11a)
            - No
              - Activity reported in a fiduciary fund
            - Yes
              - Activity reported in a fiduciary fund

Assets with certain characteristics

- Assets associated with activity have one or more of the following characteristics:

  **Administered through a trust or equivalent arrangement**
  - Government is not the beneficiary
  - Assets dedicated to providing benefits to recipients under benefit terms
  - Assets legally protected from creditors of the government

  **For the benefit of individuals**
  - Government does not have administrative or direct financial involvement (similar to GASB 24 §5)
  - Assets not derived from government's provision of goods and services to those individuals

  **For the benefit of other organizations**
  - Not part of the financial reporting entity
  - Assets not derived from government's provision of goods and services to other organization
Assets for the benefit of individuals

- Government does **not** have administrative or direct financial involvement

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<th>Direct financial involvement</th>
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<tr>
<td>Monitors compliance with requirements of the activity</td>
<td>Provides matching resources</td>
</tr>
<tr>
<td>Determines eligible expenditures</td>
<td>Other financial involvement</td>
</tr>
<tr>
<td>Ability to exercise discretion on how funds are allocated</td>
<td></td>
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</table>

Determining Whether Benefit is for Individual or Organization

- No definition of organization
- If benefit to individual, government may not have administrative or direct financial involvement
- No similar requirement if benefit to organization
- Likely the deterring factor of whether many assets, including student activity funds, are reported as assets of the primary government or as fiduciary activities.
Determining Whether Organization has Administrative or Direct Financial Involvement

- Criteria is derived from GASB 24 for pass-through grants
- Difficult to interpret in connection with this standard for other fiduciary activities
- Likely will be several Q & As on this topic

Example: Student Council Class of 2021

- The student council of a school district holds several fundraising events during the year to fund club activities.
- The student council has 3 student leaders who determine how the funds should be allocated and facilitate the purchases.
- The student council has a teacher sponsor who provides oversight for reviewing club spending for appropriateness and stamps "OKAY TO PAY" on club invoices to be processed by the main office.
- The school district does not have a policy or procedure requiring the school board to be involved in the approval of the student council purchases.
- The school district invests the funds on behalf of the student council.
- The student council is not in a trust equivalent arrangement.
Example: Student Council Class of 2021

- Test One – control
  - Government controls the assets ✓

- Test Two – not from certain revenues
  - Own source of revenues ✓
  - Government mandated or voluntary non-exchange transactions ✓

- Test Three – meet at least one characteristic
  - Trust X
  - For individuals – with no admin or direct financial involvement, and not from government’s provision of services ✓
  - For Organizations – not part of reporting entity, and not from government’s provision of services X

Conclusion – Student Council

Fiduciary Activity
Example: Cheer Team

- The cheer team of a school district is allocated a percentage of school registration fees annually and also receives various donations throughout the year through fundraising activities
- The cheer team has 3 student leaders who recommend how the funds should be spent
- The school board has an internal district policy requiring a designated teacher to oversee cheer team activities, including purchases, and requiring a principal to approve all cheer team purchases
- The teacher sponsor approves team spending and stamps "OKAY TO PAY" on the invoices
- The school principal reviews all team purchase orders and approves them prior to the main office processing the payment
- The school district invests the funds on behalf of the team
- The team is not in a trust equivalent arrangement

Example: Cheer Team

- Test One – control
  - Government controls the assets ✔
- Test Two – not from certain revenues
  - Own source of revenues ✔
  - Government mandated or voluntary non-exchange transactions ✔
- Test Three – meet at least one characteristic
  - Trust ✗
  - For individuals – with no admin or direct financial involvement, and not from government's provision of services ✗
  - For Organizations – not part of reporting entity, and not from government's provision of services ✗
Conclusion – Cheer Team

Governmental Activity

Fiduciary activities flowchart

Is entity a component unit? (§5)

No

Yes

Does the government control the assets? (§12)

No

Yes

Assets held for pension or OPEB arrangements? (§6)

No

Yes

Activity not a fiduciary fund

No

Yes

Do assets have certain characteristics? (§8, 11c)

Activity reported in a fiduciary fund

No

Yes

Activity's assets not derived from certain revenues? (§11b, 13)
Recommendations for Governments

Perform detailed analyses of identified activities

1) Work through all the accounts methodically, applying the standard consistently
   • (Different activities with the same characteristics should generally result in the same
deetermination)

2) If working with many activates, separate into manageable pieces. For example, activities can be separated by:
   • Class Accounts
   • Team Account Managed/Coached
   • Type (scholarships)

3) Keep detailed and consistent documentation
Transition

• Identify potential Fiduciary Activities
• Changes should be retroactively applied by restating all periods presented
  • Prior period adjustment for cumulative effect
  • If comparative statements presented, prior period should also be restated
• Disclose the restatement in the notes
• GASB issued flowcharts (handout) to help with transition

Fiduciary Fund Financial Statements

• Statement of Fiduciary Net Position
  • Reports assets, liabilities, deferred inflows/outflows and net position
  • Net position presented for all fund types, including Custodial
  • Liabilities recognized when government compelled to pay
• Statement of Changes in Fiduciary Net Position
  • Shows how net position changed during the year
  • Reports additions to and deductions from fiduciary funds
  • This is new for the Custodial Funds. Agency funds did not present this in the past.
Summary

Overview

- Statement 84 issued in January 2017
- Effective for years ending 12/31/19 and later
- Earlier application is encouraged, BUT…
  - No GASB implementation guide has yet been issued
  - We still have almost one year before statement is effective
  - Specific guidance will be coming out in 2018 and 2019
Questions?

Yeo & Yeo is here to help!
Thank you!

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