GASB Update...
But Mostly Applying GASB 84

Presented By
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GASB UPDATE
What the future holds!
GASB UPDATE

GASB’s Impacting K12

• GASB 87 - Leases (6.30.21 year end)
• GASB 88-Debt Disclosures (6.30.19 year end)

Exposure Drafts Impacting K12

• Subscription-Based Information Technology Arrangements (cloud computing) – similar treatment to 87
• Deferred Compensation Plans (457 plans in light of pension standard)
GASB UPDATE

Preliminary Views Impacting K12

• Financial Reporting Model Improvements
  • Focus on: asset/liability recognition, framework for complex transactions, lack of consistency in “short term” perspective (60 day rule in K12). ED expected in 2020.
  • Revenue and Expense Recognition - PV expected 2020

Other Topics up for Discussion

• Compensated Absences
• Going Concern
• Prior Period Adjustments
GASB UPDATE

GASB 87 – Leases, items to consider

• Fund level “modified accrual” impact – essentially no change
• Governmentwide Impact – recognizing right to use asset and long term liability
• Implementation suggestions:
  • Accounting policies to assess/develop
    • Working threshold for assessing leases
    • Process to evaluate terms of lease
    • Process to capture data on leases on ongoing basis
    • Transactions can have lease and non-lease components, process for allocating
    • Valuing the asset, amortization period, and liability
• Lease inventory – what are you leasing and where are the contracts? Understand terms to apply recognition criteria.
• Standard excludes certain arrangements – ex intangible assets (copyrights, software), inventory, power purchase agreements)
• What if you are leasing to others? Creates lease receivable!
• Implementation Guide issued Fall 2019
GASB 84
The good stuff!
GASB 84 District Approach

Evaluating Fiduciary Activities

1. What is the organization/account/activity?

2. Where does it fit? (apply the criteria)

3. What needs to be put in place? (How has it gone so far?)

4. What issues do we need to resolve?
GASB 84
Reminders
GASB 84

• **Scope:**
  - Establishes criteria for identifying what is considered a fiduciary activity
  - Guidance on reporting fiduciary activities

• **Timing:**
  - Issued January 2017
  - Effective for reporting periods beginning after 12/15/2018
    - Impacts your books and records starting – 7/1/19
    - Will be first reported and audited year ended – 6/30/20
  - 1022 guidance, Issued March 2019
Four fund types under GASB 84

**Pension and OPEB trust funds**
- Report pension and OPEB plan activity administered through trusts under GASB 67 or GASB 74
- Other employee benefit plans where resources held in trust, and contributions are irrevocable

**Investment trust funds**
- Assets held in trust
- External portion of investment pools

**Private-purpose trust funds**
- Fiduciary activities held in trust that are NOT required to be reported as pension, other employee benefit or investment funds

**Custodial funds**
- Report fiduciary activities not held in trust
- Report external portion of investment pool not held in trust in separate “external investment pool fund” under custodial funds
Fiduciary activities – What counts?

<table>
<thead>
<tr>
<th>Must meet all the following criteria:</th>
<th>PLUS Any of the following:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets controlled by School District</td>
<td>Assets held in a qualifying trust in which School District is not beneficiary, legally protected, and dedicated to providing benefits to recipients</td>
</tr>
<tr>
<td>Assets not derived from own source revenues</td>
<td>Assets held for the benefit of individuals without the School District having administrative or direct financial involvement (1)</td>
</tr>
<tr>
<td>Assets not derived from government-mandated or voluntary nonexchange transactions</td>
<td>Assets held for the benefit of outside organizations not part of the School Districts reporting entity</td>
</tr>
</tbody>
</table>

(1) – is “the district” calling the shots
Fiduciary activities

• Own-source revenue
  • Defined as revenue generated by the School District itself. Includes interest earnings, property taxes, state aid, federal grants, etc.

• Administrative or direct financial involvement
  • A recipient school district has financial involvement if, for example, it:
    • finances some direct program costs because of a grantor-imposed matching requirement
    • is liable for disallowed costs

Administrative involvement to be discussed later!
GASB 84 - Student Activities and Private Purpose Trust Funds

“Quick” Conclusions – based on the “test”

• Student Activities – Can be custodial, but many activities likely treated as a Special Revenue Fund in most districts

• Private Purpose Trust Fund – likely treated similar to student activities, unless truly in a trusted plan

• Boosters – some accounts may be maintained by District, will they be custodial?

• Other accounts or fundraising– answers are not simple, require a strategy, legal conclusion!

1022 guidance allows options but generally points to these conclusions
GASB 84
Current vs. Future Accounting
Current vs Future accounting....

2019 Reporting

Fiduciary Funds
Statement of Fiduciary Assets and Liabilities
June 30, 2018

Agency Funds
$ 573,837
$ 573,837

Assets - Cash and investments (Note 4)
Liabilities - Due to student activities

2020 Reporting

General Fund
Special Revenue Fund
Fiduciary Funds
Custodial
Private Purpose Trust

Must apply the criteria – Judgement!
Reporting Implications
## Financial statement reporting – Fiduciary Funds

### Required financial statements under GASB 84

<table>
<thead>
<tr>
<th></th>
<th>Private purpose trust funds</th>
<th>Custodial funds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Statement of</strong></td>
<td>• Assets</td>
<td>• Assets</td>
</tr>
<tr>
<td><strong>fiduciary net position</strong></td>
<td>• Deferred outflows</td>
<td>• Deferred outflows</td>
</tr>
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<td></td>
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<td></td>
<td>• Fiduciary net position</td>
<td>• Fiduciary net position</td>
</tr>
<tr>
<td><strong>Statement of changes</strong></td>
<td>• Additions</td>
<td>• Additions</td>
</tr>
<tr>
<td><strong>in fiduciary net</strong></td>
<td>• Deductions</td>
<td>• Deductions</td>
</tr>
<tr>
<td><strong>position</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Statement of Changes in Fiduciary Net Position

• Changes in Fiduciary Net Position
  • Additions:
    • Presented by source (likely just one or two categories)
    • Separate display of investment earnings, investment costs, and net investment earnings is required (if any)
  • Deductions:
    • Presented by type (likely one or two categories)
    • Separate display of administrative costs is required (if any)
Governmental Funds (GF & SRFs)

• **Restatement of Fund Balance** – Any activity moving from fiduciary to a Governmental Fund will require a restatement of beginning fund balance (July 1, 2019) for the 2020 financial statements

• **Budget implications**
  • General Fund *(depending on how many move to GF, if any, may not be significant)*
  • Special Revenue Fund (NEW fund therefore NEW budget required, “should be” with 2019/20 original budget adoption)

• **Accounting Treatment**
  • 1022 accounting guidance for fiduciary and special revenue
Applying the Standard
GASB 84: Legal Considerations for Public Schools

**CURRENT AGENCY FUNDS**

Activity funds maintained in school district’s bank account?

- **Y**
  - Not subject to GASB 84.

- **N**
  - Not subject to GASB 84.

**FIDUCIARY ACTIVITY**

Private Purpose Trust Fund or Custodial Fund.

**YES ON ALL**

**GOVERNMENTAL ACTIVITY**

General or Special Revenue Fund.

**IF NO ON ANY**

**Exception to the definition of “Public Funds”**
Voluntary contribution for specific purpose? (MCL § 380.1814).

**PUBLIC FUNDS BUT...**
Funds may be used for activity’s purpose as long as it has an "EDUCATIONAL NEXUS" to the operation of the school district.

**PUBLIC FUNDS**
Funds are subject to all legal restrictions applicable to the General Fund.

**NOT PUBLIC FUNDS**
Funds may be used for the activity’s stated purpose with no legal restrictions.
Requirements to consider when classifying as Fiduciary or Governmental Activity
Custodial Funds Defined

In order to be deemed a fiduciary fund a Custodial Fund must meet all of the following **four criteria**:

**Source:**
1. Fund assets may **not** include district or “own source funds”, which for school districts includes state and federal aid, local tax revenue, etc. (i.e. *no* co-mingling district/public and private funds)

**Control:**
2. Assets **must** be controlled by the school district (e.g. school district’s bank account)
3. Assets **must** be for the benefit of individuals or entities (i.e. not the school district)
4. District **cannot** have administrative involvement with the assets
What is “Administrative Involvement”? 

A. District monitors compliance with the requirements of the activity that are established by the government

B. District determines eligible expenditures that are established by the government

C. District has the ability to exercise discretion over how assets are allocated

D. Final GASB Implementation Guidance provides several school examples
Permissible Uses of Funds
GASB 84: Permissible Expenditure of Public Funds

Permissible Expenditure Analysis: 3 Questions

1. What **powers** does the school district have to expend public funds?

2. What are the specific **source and use limitations** or specific **prohibitions** on expenditures?

3. What is provided for in the school board-approved **budget**?
GASB 84: General Powers: Permissible Expenditures

“Educational Nexus”

Unless some specific **limitation** or **prohibition** has been placed on expenditures from the General Fund, so long as there is a reasonable “**educational nexus**” between the expenditure and the performance of any function related to the operation of a school district in the interests of public elementary and/or secondary education in the school district, the expenditure from the General Fund is **allowed**.
GASB 84: Specific Limitations or Prohibitions

- Source limitations
- Use limitations
- Section 1814 of the School Code

(1) Except as otherwise provided in subsection (2), a person shall not use school district,... **funds or other public funds under the control of a school district**,... for purchasing **alcoholic beverages, jewelry, gifts, fees for golf, or any item the purchase or possession of which is illegal.**

(5) As used in this section, "**public funds**" means funds generated from taxes levied under this act, state appropriations of state or federal funds, or payments to a school district, ... for services, but **does not include voluntary contributions made for a specific purpose** by a ... board member; ... employee; another individual; or a private entity. [Emphasis added]

- Scholarships?
GASB 84: Permissible Expenditure of Public Funds

**CURRENT AGENCY FUNDS**

**FIDUCIARY ACTIVITY**
Private Purpose Trust Fund or Custodial Fund.

**GOVERNMENTAL ACTIVITY**
General or Special Revenue Fund.

**FIDUCIARY v. GOVERNMENTAL ACTIVITY CRITERIA**

- **Y**: Exception to the definition of “Public Funds” Voluntary contribution for specific purpose? (MCL § 380.1814).
- **Y**: PUBLIC FUNDS BUT… Funds may be used for activity’s purpose as long as it has an “EDUCATIONAL NEXUS” to the operation of the school district.
- **N**: PUBLIC FUNDS Funds are subject to all legal restrictions applicable to the General Fund.

**NOT PUBLIC FUNDS**
Funds may be used for the activity’s stated purpose with no legal restrictions.
Practical Issues and Examples
Practical Issues and Examples

Q

• If an activity gets funds from school operations, can it be a fiduciary activity/be a custodial fund?

A

• Using the criteria, it fails the source of revenue test and cannot be a fiduciary fund 😞
Practical Issues and Examples

Q

• The High School parking fees are maintained in a “student activity” account, can we still do that?

A

• In reality these are local source revenues that may be directed for a specific purpose. They are not fiduciary funds and should already be in a governmental fund.
Practical Issues and Examples

Q
• How do I know if the district has administrative involvement?

A
• Judgement! The issue here is more about the extent and type of involvement.
• Range of involvement can be from processing transactions (likely no administrative involvement) to making all decisions for the group (substantial involvement)
Practical Issues and Examples

Q
• Fundraising is a normal activity at the building level.
• Can we still do that?
• How should the "activity" be treated?

A
• Nothing in GASB 84 prevents fundraising
  
• Where does it go – apply the criteria, if it’s part of an student activity then the funds go with the activity.
  
• If it benefits the District then likely a governmental fund
Practical Issues and Examples

Q
• Applied the criteria and many activities are governmental activities, so we chose to use Fund 29.
• Do I have to budget that fund?

A
• All Special Revenue funds are required to be budgeted.
• GASB 84 is effective 7.1.19!

• Suggest to budget lines to start
  1. Local revenue
  2. Support service
• Consider budgeting revenue = expenditures to start

• If it was not done yet, include in first amendment
Practical Issues and Examples

Q

• We put our student activities in Fund 29.
• How does that impact the purchasing process?

A

• Fund 29 is a governmental fund. The district’s purchasing policy would generally cover governmental fund purchases. Revisit purchasing policy/procedures if reasonable adjustments are needed.
Practical Issues and Examples

Q

• We have funds donated for scholarships. What happens to those?

A

• Are they “trusted”? If so likely private purpose trust fund
• Not trusted? Apply the criteria.
• Maybe get out of the business, ask an attorney if you can transfer it out of district and be managed externally
Practical Issues and Examples

Q

• We collect funds for “stuff” throughout the year. Can this be custodial?

A

• Apply the criteria. Likely a voluntary contribution for a specific purpose.
• As to if it is “allowable” consider implications of 1814(5).
Practical Issues and Examples

Q

• We have PTO’s in our student activities, is that okay?

A

• Key question – is it a good time to “empower” them to be on their own?

• The SD can provide custodial services when you apply the criteria.

• Likely little administrative involvement
Practical Issues and Examples

Q

• Do I have to analyze all the activity accounts and segregate them between school district operating activity, student activity with administrative involvement and custodial?

A

• Technical answer – Yes
• Practical Answer – Judgement!
Practical Issues and Examples

Q

• I have the accounting already set up for student activities, and it works well. Do I need to change everything?

A

• Short answer is no!

• Longer answer is, you need to be able to get the activities into the accounting structure by year end for financial statement and FID purposes.

• How you manage the activity is up to the district, just as it is now.
Practical Issues and Examples

Q
• How do I sort out all of this information to make decisions?

A
• First classify the question (what type of issue is it?)
• Second review issued materials to see if the issue is addressed? (1022 guidance, board policies, legal guidance)
• Third, if the answer is unclear involve the professional in the area where question was classified (step 1)
Your Issues
GASB 84 Issues Discussion–

✓ What implementation issues have you run into?

✓ What category do they fall into?

➤ Finance/Accounting

➤ Legal

➤ Administrative/People
Thank You ..... For Being Great Fiduciaries!