October 2019 SACS Forum Minutes, Attachment A

California Department of Education, School Fiscal Services

# Summary – SACS Forum Discussion on GASB Statement 84 – Fiduciary Activities

The Governmental Accounting Standards Board (GASB) issued Statement 84, *Fiduciary Activities*, in January 2017. The requirements in this Statement are intended to enhance the consistency and comparability of fiduciary activity reporting by state and local governments. In addition, this Statement is intended to improve the usefulness of fiduciary activity information primarily for assessing the accountability of governments in their roles as fiduciaries. The Statement is effective beginning 2019–20.

The Statement addresses the following:

* How to identify fiduciary activities
* How to report fiduciary activities
* When to disclose liabilities to beneficiaries

LEAs may have fiduciary activities currently being reported in non-fiduciary funds as well as activities that are currently being reported in fiduciary funds that should be reported elsewhere. This could result in fund structure changes as well as changes to annual financial reports and potentially other reporting, policies, and responsibilities. LEAs should evaluate all potential fiduciary activities for appropriate reporting under the new standards.

The complete statement and associated Implementation Guide are available on the GASB website: <https://www.gasb.org/home>.

## Identifying Fiduciary Activities

There are three types of fiduciary activities:

* Fiduciary component units, including pension and other postemployment benefit (OPEB) arrangements (Path 1 and 2)
* Pension and OPEB arrangements that are not component units (Path 3); and
* Other fiduciary activities (Path 4).

One of the first steps in determining whether an activity is a fiduciary activity is determining if the entity is a component unit pursuant to GASB 14, as amended. When evaluating potential component units, GASB 84 is clear that pension and OPEB plans that are administered through qualifying trusts are considered legally separate entities for component unit evaluation.

## Definition of Component Unit

An entity should be included as a component unit of a primary government (PG) when the entity is legally separate from the PG **and one of three** criteria is met:

* The PG appoints a voting majority of the entity’s governing board, and
* the entity can provide a financial benefit to, or impose a financial burden on, the PG; OR
* the PG has the ability to impose its will on the entity (GASB 14, paragraphs 25 and 26).
* The PG does not appoint a voting majority of the entity’s governing board, but the PG has a financial benefit/burden for the entity **and** the entity is fiscally dependent on the PG (GASB 14, paragraph 16).
* It would be misleading to exclude the entity.

## Four Paths to Determine Fiduciary Activities

Once component units have been evaluated, there are four paths to determine fiduciary activities:

Path 1: Component units that provide pension or OPEB are fiduciary component units if they are **one** of the following arrangements (GASB 84, paragraph 6):

* A pension plan that is administered through a trust (GASB 67, paragraph 3)
* Assets from entities that are not part of the reporting entity are accumulated for pensions not in a trust (GASB 73, paragraph 116)
* An OPEB plan that is administered through a trust (GASB 74, paragraph 3)
* Assets from entities that are not part of the reporting entity are accumulated for OPEB not in a trust (GASB 74, paragraph 59)

Path 2: Other component units are fiduciary component units if they have **one or more** of the following characteristics (GASB 84, paragraph 8):

* The assets are (1) administered through a trust agreement or equivalent arrangement in which the government itself is not a beneficiary, (2) dedicated to providing benefits to recipients in accordance with the benefit terms, and (3) legally protected from the creditors of the government.
* The assets are for the benefit of individuals and the government does not have *administrative involvement* with the assets or *direct financial involvement* with the assets. In addition, the assets are not derived from the government’s provision of goods or services to those individuals.
* The assets are for the benefit of organizations or other governments that are not part of the financial reporting entity. In addition, the assets are not derived from the government’s provision of goods or services to those organizations or other governments.

Path 3: Pension and OPEB arrangements that are not component units are fiduciary if the government **controls** the assets of the arrangement and the arrangement is **one** of the following arrangements (GASB 84, paragraph 10):

* A pension plan that is administered through a trust (GASB 67, paragraph 3)
* Assets from entities that are not part of the reporting entity are accumulated for pensions not in a trust (GASB 73, paragraph 116)
* An OPEB plan that is administered through a trust (GASB 74, paragraph 3)
* Assets from entities that are not part of the reporting entity are accumulated for OPEB not in a trust (GASB 74, paragraph 59)

Path 4: All other activities are fiduciary if **all three** of the following are met (GASB 84, paragraph 11:

* The government **controls** the assets.
* Those assets are **not derived** either:
	+ Solely from the government’s own-source revenues, or
	+ From government-mandated nonexchange transactions or voluntary nonexchange transactions with the exception of pass-through grants and for which the government does not have *administrative or direct financial involvement*.
* The assets associated with the activity have **one or more** of the following characteristics:
	+ The assets are (1) administered through a trust agreement or equivalent arrangement in which the government itself is not a beneficiary, (2) dedicated to providing benefits to recipients in accordance with the benefit terms, and (3) legally protected from the creditors of the government.
	+ The assets are for the benefit of individuals and the government does not have **administrative involvement** with the assets or **direct financial involvement** with the assets. In addition, the assets are not derived from the government’s provision of goods or services to those individuals.
	+ The assets are for the benefit of organizations or other governments that are not part of the financial reporting entity. In addition, the assets are not derived from the government’s provision of goods or services to those organizations or other governments.

### Control of Assets (GASB 84, paragraph 12)

An LEA controls the assets if it:

* Holds the assets; OR
* Has the ability to direct the use, exchange, or employment of the assets for benefit of specified or intended recipients.

### Administrative Involvement and Direct Financial Involvement

An LEA has administrative involvement if it:

* Monitors compliance with the requirements of the activity that are established by the government or by a resource provider that does not receive the direct benefits of the activity
* Determines eligible expenditures that are established by the government or by a resource provider that does not receive the direct benefits of the activity
* Has the ability to exercise discretion in how assets are allocated

An LEA has direct financial involvement if it:

* Provides matching resources for the activities
* Is liable for disallowed costs

## Common LEA Fiduciary Activities

### Payroll and warrant clearing accounts

LEAs commonly use a clearing account to accumulate resources from employee payroll withholding and accrued employer payroll taxes that will be submitted to the appropriate agencies when due. Pursuant to GASB 84, LEAs should not report the clearing account in a fiduciary fund because the government is holding the amounts for its own benefit, i.e., its own employees. Therefore, the unremitted amount in the clearing account is a liability of the LEA, and not being held in a fiduciary capacity. This situation is addressed in GASB’s Implementation Guide No. 2019-2, Fiduciary Activities, question 4.15: <https://gasb.org/page/document?pdf=GASB+IG+2019-2.pdf&title=Implementation%20Guide%20No.%202019-2,%20Fiduciary%20Activities>.

Note that a county office of education (COE) may continue to use a fiduciary fund, i.e., Fund 76, Warrant/Pass-Through Fund, for the accumulation of payroll withholding on behalf of its school district employees as it is holding those funds in a fiduciary capacity. However, the accumulation of payroll withholding for the COE’s own employees should not be reported in Fund 76, as discussed above.

The following is an example comparing a COE’s accounting for payroll withholding before and after GASB 84:

The COE collected $10 million in payroll withholding on behalf of school districts and $5 million for its own employees, for a total amount collected of $15 million. By fiscal year end, $9 million was distributed to the appropriate agencies on behalf of school districts and $3.5 million was distributed for itself, for a total of $12.5 million distributed.

| **Pre-GASB 84****(Fund 76)** | **Post GASB 84****(Fund 76)** |
| --- | --- |
| 1. $15 million payroll withholding collected and held for COE and its school districts.

Debit Object 9110, $15 millionCredit Object 9620, $15 millionAll payroll withholding, COE and school districts, reported in Fund 76. | 1. $10 million payroll withholding collected for its school districts

Debit Object 9110, $10 million**Credit Object 8800, $10 million****Debit Object 7500, $10 million**Credit Object 9620, $10 millionOnly school district payroll withholding reported in Fund 76. (**Note the use of new object codes for reporting amounts received and disbursed**.) |
| 1. $12.5 million distributed

Debit Object 9620, $12.5 millionCredit Object 9110, $12.5 million | 1. $9 million distributed

Debit Object 9620, $9 millionCredit Object 9110, $9 million |

| **Pre-GASB 84****(Fund 01)** | **Post-GASB 84****(Fund 01)** |
| --- | --- |
| 1. $5 million COE payroll withholding expenditures

Debit Object 3XXX, $5 millionCredit Object 9110, $5 millionThe payroll withholding (benefit) expenditures are reported in Fund 01, but cash is transferred and liability established in Fund 76. | 1. $5 million COE payroll withholding expenditures
	1. Debit Object 3XXX, $5 million

Credit Object 9500, $5 million* 1. $3.5 million was distributed

Debit Object 9500, $3.5 millionCredit Object 9110, $3.5 millionThe COE’s payroll withholding liability is established in and paid from Fund 01.  |

Note that if a school district remits its own payroll withholding, then the school district will not report these amounts in Fund 76 because this is not considered a fiduciary activity, as discussed previously.

Note that the application of GASB 84 requirements surrounding payroll withholding would also apply to warrant processing activities.

### Contract Retainage

An LEA retains ten percent of the amount billed by the contractor on a construction contract until construction is complete and all requirements in the contract have been satisfactorily met. The LEA should not report the retained amounts in a fiduciary fund, because the LEA is holding the retainage for its own benefit (refer to Implementation Guide question 4.13).

### Cash Conduit

When a recipient LEA transfers pass-through grants or other pass-through funds to a subrecipient LEA and the recipient LEA has no administrative or direct financial involvement, the recipient LEA acts only as a cash conduit. This activity meets all three criteria of GASB 84, paragraph 11 (11.a through 11.c.) for determining the “other” type of fiduciary activity that would be reported in a custodial fund, i.e., Fund 76.

An example of such activity is when an authorizing LEA passes through funding sources, e.g., State Lottery, to a charter school that has elected to be locally funded but is otherwise not part of the LEA. Note that this is consistent with existing guidance in the California School Accounting Manual (CSAM), Procedure 750, Pass-Through and Cooperative Projects, regarding cash conduit and other models of funding passed through to other LEAs. Also note that pass-through transactions qualifying as pure cash conduits are rare.

### Scholarship Funds

Scholarship funds may be reported in Fund 73, Foundation Private-Purpose Trust Fund, only if administered through a trust agreement and GASB 84 fiduciary criteria are met. If the scholarship funds are not administered through a formal trust agreement, but fiduciary criteria are otherwise met, then those funds may be reported in Fund 76. Scholarship funds that are not administered through a trust and do not meet fiduciary criteria should be reported in the general fund.

### Associated Student Body organizations (ASBs)

There are two types of ASBs in California - unorganized ASBs and organized ASBs. Refer to *Education Code* 48930 through 48938 for more information about ASBs, as well as the Fiscal Crisis Management and Assistance Team’s Associated Student Body manual, which is available on the Fiscal Crisis Management & Assistance Team website: <https://www.fcmat.org/2015-asb-accounting-manual-fraud-prevention-guide-and-desk-reference>.

* Unorganized ASBs – expenditures are subject to the approval of an appointed employee or official designated by the school district governing board (EC Section 48938).
* Organized ASBs – expenditures are subject to the preapproval of three people: an employee of the school district designated by the governing board, the ASB advisor (who must be a certificated employee of the district), and a student representative of the ASB organization (EC Section 48933).

CDE has concluded that most unorganized ASB activities in California school district are not fiduciary because they do not appear to meet the criteria established by GASB 84, paragraph 11(c)(2). Specifically, when assets held by the school district benefit individuals, in this case the school district’s students, the school district should not have administrative or direct financial involvement with the assets. Based on state statute, it appears that LEAs have administrative involvement in unorganized ASB’s activities because the appointed employee or official designated by the school district governing board has the ability to approve, disapprove or modify expenditures.

Although CDE has come to a similar conclusion regarding organized ASBs, LEAs should more thoughtfully apply the fiduciary criteria in GASB 84, paragraph 11. The key determination regarding whether LEAs have administrative involvement in organized ASB activities is if LEA staff designated by the governing board to approve ASB expenditures have the authority to disapprove or amend the ASB expenditures, versus “rubber stamp” approval. Unlike unorganized ASBs, students are much more involved in organized ASB management and decision making, so the LEA staff may not have the authority to disapprove or modify expenditures.

ASB activities that do not meet GASB 84 criteria are not fiduciary and should not be reported in Fund 95, Student Body Fund, but rather in a governmental fund.

## Financial Reporting for Fiduciary Activities

Once fiduciary activities are identified, they are reported using one of the following fiduciary fund types:

| **Fund Type** | **SACS Fund** |
| --- | --- |
| Pension and other employee benefit trust funds | Fund 71, Retiree Benefit Fund |
| Investment trust funds (not used by California LEAs) | N/A |
| Private-purpose trust funds | Fund 73, Foundation Private-Purpose Trust Fund |
| Custodial funds | Fund 76, Warrant/Pass-Through FundFund 95, Student Body Fund |

Trust agreements or equivalent arrangement must be present for a fiduciary activity to be reported in any of the trust-type funds. Custodial funds are used to report fiduciary activities that are not required to be reported in trust funds.

LEAs will continue to report fiduciary activities held in trusts in either Fund 71 or Fund 73. Fiduciary activities not held in trust will be reported in one of the custodial (formerly agency) funds 76 or 95.

### Custodial (formerly agency) funds

GASB 84 reclassifies the former agency funds as custodial funds (Funds 76 and 95). Prior to GASB 84, agency funds required the presentation of assets and liabilities only in the statement of fiduciary net position. For custodial funds, GASB 84 requires a statement of fiduciary net position reflecting assets, deferred outflows, liabilities, deferred inflows, and fiduciary net position **and** a statement of changes in fiduciary net position reflecting additions and deductions. Associated account code changes are described below.

### Liability Recognition

GASB 84 changes the determination of fiduciary liabilities. The liability to beneficiaries resulting from a fiduciary activity should be recognized only when an event has occurred that compels the LEA to disburse fiduciary resources. Prior to GASB 84, the liability to beneficiaries was recognized immediately when an LEA receives the fiduciary resources by debiting assets and crediting liabilities for a like amount at the same time.

As an example, an LEA is holding scholarship donations on behalf of a student body group, and assuming that the activity is fiduciary. In addition, the LEA has determined that the resources meet the criteria in GASB 84 to be accounted for in a custodial fund. The student body group will select recipients, monitor compliance, and direct the LEA to apply scholarship funds to recipients’ accounts. The student body group has not yet determined scholarship recipients; therefore, the LEA is not compelled to disburse the fiduciary resources.

* Accounting prior to GASB 84: The LEA recorded the transaction by debiting assets (cash) and crediting liabilities for the same amount when the donations were received.
* GASB 84 accounting: The LEA should not recognize a liability immediately in the custodial fund when the donations are received. The LEA should record the transaction by debiting assets (cash) and crediting new Object 8800 to record the donations received. The donations are reported as part of the net position at year-end to the extent the LEA is not compelled to disburse those donations, e.g., scholarship recipients have not been selected.

However, in certain cases, an LEA incurs a liability as soon as it takes control of fiduciary resources if the beneficiary does not need to take action to compel the LEA to disburse the fiduciary resources. For example, when a county office of education receives payroll tax withholding on behalf of its school districts.

## SACS Accounting and Software Changes

### Fund Changes

**Funds 76 and 95** – As noted above, funds formerly classified as agency funds are reclassified as custodial funds. The title of Fund 95, Student Body Fund, remains unchanged. The title and description (to be determined) of Fund 76 will be changed for reporting all other custodial fund activities that are not reported in Fund 95.

To facilitate the reporting of the statement of changes in fiduciary net position now required for these funds, additions and deductions object codes will be added (described below), as well as a section for reporting net position.

Currently, the SACS software forms 76 and 95 include actuals data only, and there is no plan to expand forms 76 and 95 to include budget or interim data. This means form changes will first appear in the SACS2020 software budget release for 2019–20 estimated actuals data. Included in the proposed SACS2020 software changes is the elimination of supplemental forms 76A and 95A.

***(Proposed) Fund 08, Student Activity Fund -*** *CDE also proposes to establish a new special revenue fund, Fund 08, Student Activity Fund, to account for those student body activities that do not meet the fiduciary activity criteria pursuant to GASB 84. In addition, a new revenue object code 8715, Proceeds for District Activities, will be established to account for revenues/proceeds received in the Fund 08. Disbursements from Fund 08 should be recorded with Function 4000, Ancillary Services or the appropriate optional Function 4XXX, with the appropriate object codes. Both Resource 0000, Unrestricted, and Resource 9010, Other Restricted Local, will be open in Fund 08. In a case where a substantial portion of Fund 08 inflows is not from restricted revenue sources, the LEA should take formal action to commit the revenues to the purposes for which the fund is intended.*

*The new Fund 08 form will not be implemented in time for 2019-20 budget or interim reporting. Therefore, the fund form would first appear in the SACS2020 software budget release for 2019-20 estimated actuals reporting.*

### Object Changes

Two new object codes have been established to facilitate the preparation of the statement of changes in fiduciary net position, and are open to funds 76 and 95 only.

* Object 8800, Funds Collected for Others.
* Created to allow LEAs to record resource additions in custodial funds.
* Object range 8801–8819, Funds Collected for Others: Locally Defined, is reserved to allow LEAs to create locally defined object codes within this range to identify specific sources. When data are submitted to CDE, LEAs must roll up all objects within this range to Object 8800.
* Object 7500, Funds Distributed to Others.
* Created to allow LEAs to record resource deductions in custodial funds.
* Object range 7501–7519, Funds Distributed to Others: Locally Defined, is reserved to allow LEAs to create locally defined object codes within this range to identify specific distributions. When data are submitted to CDE, LEAs must roll up all objects within this range to Object 7500.

### Resource Changes

Besides Resource 0000, Resource 9010, Other Restricted Local, is also open to funds 76 and 95 to allow LEAs to report restricted fiduciary net position. Since the LEAs hold the assets for resource providers that place constraints on the use of the assets, the net position should be reported as restricted.

### Validation table updates

CDE issued SACS validation table updates in March 2019 to establish the custodial fund account code changes indicated above. Although the new custodial fund codes are not needed for reporting 2019–20 budget data, by including them in the table updates LEAs will be able to set up and start using the appropriate account strings in their financial systems for 2019–20.

CDE understands that LEAs may not have all system changes in place to facilitate GASB 84 accounting changes by the beginning of the 2019–20 fiscal year. LEA staff may want to consult with their auditors regarding potential adjusting entries necessary to reclassify transactions and balances at fiscal year-end to comply with GASB 84.