

## **Summary – SACS Forum Discussions 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 was supposed to be effective beginning 2019–20. Due to the implementation of GASB 95, Postponement of the Effective Dates of Certain Authoritative Guidance, the effective year of GASB 84 is postponed from 2019–20 to 2020–21.

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/ShowDocument?path=GASB%2520IG%25>

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.

<b>Pre-GASB 84 (Fund 76)</b>	<b>Post GASB 84 (Fund 76)</b>
<p>1) \$15 million payroll withholding collected and held for COE and its school districts.</p> <p>Debit Object 9110, \$15 million Credit Object 9620, \$15 million</p> <p>All payroll withholding, COE and school districts, reported in Fund 76.</p>	<p>1) \$10 million payroll withholding collected for its school districts</p> <p>Debit Object 9110, \$10 million <b>Credit Object 8800, \$10 million</b></p> <p><b>Debit Object 7500, \$10 million</b> Credit Object 9620, \$10 million</p> <p>Only school district payroll withholding reported in Fund 76. <b>(Note the use of new object codes for reporting amounts received and disbursed.)</b></p>
<p>2) \$12.5 million distributed</p> <p>Debit Object 9620, \$12.5 million Credit Object 9110, \$12.5 million</p>	<p>2) \$9 million distributed</p> <p>Debit Object 9620, \$9 million Credit Object 9110, \$9 million</p>

<b>Pre-GASB 84 (Fund 01)</b>	<b>Post-GASB 84 (Fund 01)</b>
<p>1) \$5 million COE payroll withholding expenditures</p> <p>Debit Object 3XXX, \$5 million Credit Object 9110, \$5 million</p> <p>The payroll withholding (benefit) expenditures are reported in Fund 01, but cash is transferred and liability established in Fund 76.</p>	<p>1) \$5 million COE payroll withholding expenditures</p> <p>a) Debit Object 3XXX, \$5 million Credit Object 9500, \$5 million</p> <p>b) \$3.5 million was distributed</p> <p>Debit Object 9500, \$3.5 million Credit Object 9110, \$3.5 million</p> <p>The COE's payroll withholding liability is established in and paid from Fund 01.</p>

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* sections 48930 through 48938 for more information about ASBs, as well as the Fiscal Crisis Management and Assistance Team’s Associated Student Body manual: <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.

CDE recommends that LEAs review policies and procedures for each ASB activity or club to determine whether each activity or club meets the definition of a fiduciary activity in accordance with GASB 84. ASB activities that meet the definition of fiduciary activities in accordance with GASB 84 can be reported in Fund 95, Student Body Fund. ASB activities that do not meet the definition of fiduciary activities in accordance with GASB 84 are considered governmental activities and should be reported in a governmental fund, either the general fund or special revenue fund (that is, Fund 08).

## Financial Reporting for Fiduciary Activities

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

<b>Fund Type</b>	<b>SACS Fund</b>
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 Fund Fund 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, Funds Collected for Others, 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**

The following changes to facilitate GASB 84 implementation were included in the SACS2020 software for 2019–20 actuals data and 2020–21 budget/interim data.

### **Fund Changes**

**Funds 76 and 95** – As noted above, funds formerly identified as agency funds are reclassified as custodial funds. 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. Note that supplemental forms 76A and 95A have been eliminated from the SACS software.

**Fund 08, Student Activity Special Revenue Fund** – CDE established a new special revenue fund, Fund 08, Student Activity Special Revenue Fund, to account for those student body activities that do not meet the fiduciary activity criteria pursuant to GASB 84 but are determined to be governmental activities. The fund is open to county offices of education, school districts, and charter schools. The use of Fund 08 is optional. LEAs may report governmental student body activities in either the general fund or Fund 08. Fund 08 expenditures should be recorded using Function 4000, Ancillary Services, or the appropriate optional Ancillary Services functions, with the appropriate goal and object codes. Note that the use of Function 4000 requires that a specific goal be used.

### **Resource Changes**

**Resource 8210, Student Activity Funds** – CDE established Resource 8210, Student Activity Funds, for reporting governmental student body activities. This will allow for identification of governmental student body activities regardless of the fund in which they are reported. LEAs are required to use this resource for reporting all governmental student body activities. Resource 8210 is open to Fund 01, Fund 08, Fund 09, and Fund 62.

The range of resources 8201 through 8299 is reserved by CDE to allow LEAs the option to locally define and track different student body activities. When reporting data to CDE, LEAs must roll up these locally defined resources to Resource 8210.

CDE determined that associated student body (ASB) activities should be considered restricted because *Education Code (EC)* Section 48930 specifies that the purpose of ASBs is to conduct activities on behalf of the students for whom those funds are collected. It can be inferred that the funds are held for current students at the same school at which the funds were raised. In addition, *EC* 48933 indicates that the ASB funds should be expended subject to procedures established by the ASBs.

**Funds 76 and 95** – Besides Resource 0000, Resource 9010, Other Restricted Local, is now 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.

### **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.

### **Validation table updates**

CDE has issued several SACS validation table updates since March 2019 to establish the code changes indicated above. Please refer to the spreadsheets of valid code combinations available for download from the SACS Valid Codes and Combinations web page (<https://www.cde.ca.gov/fq/ac/ac/validcodes.asp>) to see the code combinations established for the above changes.

### **Restating beginning fund balances**

For LEAs that establish a Fund 08, beginning fund balances, by resource, should be established using Object 9795, Other Restatements, rather than Object 9791, Beginning Fund Balance, which must be zero. Otherwise, a fatal technical review check (TRC) exception(s) will be generated for the TRC that compares the current year's beginning fund balance to the prior year's ending fund balance.

Similarly, Object 9795 should be used to report beginning balance changes to Fund 76 and 95 due to implementing GASB 84.

## **Impacts on SACS software forms and associated calculations**

- Resource 8210 is excluded from the minimum classroom compensation calculation (Form CEA/CEB) because the governmental ASB activities are not related to classroom instruction.
- The Components of Ending Fund Balance (CEFB) screen is available for Fund 08, Fund 76, and Fund 95.
- The indirect cost rate calculation (Form ICR) will be revised to include Fund 08 expenditures in the base of the calculation since indirect costs are allowed to be charged.
- The required contribution to the Routine Restricted Maintenance Account (RRMA) will be affected if governmental ASB activities are reported in the general fund. Since the RRMA contribution calculation is based on general fund expenditures, increased expenditures, including those associated with ASB activities, may cause an increase in the RRMA contribution. However, if an LEA elects to establish Fund 08 to report governmental ASB activities, the RRMA contribution will not be affected.
- Expenditures for governmental ASB activities reported in Fund 08 will not be included in the LEA's reserve for economic uncertainties calculation because the calculation is based on general fund expenditures only. However, if ASB activities are reported in the general fund, those expenditures will be included in the LEA's reserve calculation.