

# Fiduciary Activities under GASB Statement 84 Implementation Considerations



## **BACKGROUND INFORMATION**

In January 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 84 – Fiduciary Activities. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local government, including Colorado school districts and their charter schools as well as other entities that report to the Colorado Department of Education (CDE), such as BOCES.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or FY2019-2020. Earlier application is encouraged.

On December 17, 2018, GASB issued an exposure draft (ED) of a proposed implementation guide for Fiduciary Activities. This ED may be helpful to entities trying to implement Statement No. 84 now in order to gauge the direction the GASB was proposing for the accounting and reporting of fiduciary funds under GASB Statement No. 84. The comment period for this ED is February 28, 2019, so the guidance in this ED may change with the final release of the Implementation Guide in the future.

## **NEW CRITERIA USED FOR FIDUCIARY ACTIVITIES**

The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. Note: The statement of changes in fiduciary net position will be a new basis financial statement requirement for custodial funds with this Statement.

## **FOUR FIDUCIARY FUNDS IDENTIFIED**

The Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds.

Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. The custodial fund replaces the old “agency” fund going forward.

### **Considerations:**

- Identify all current and possible fiduciary activities for reporting purposes
- Apply the new criteria to each of these activities to determine if they meet the definition of a fiduciary activity going forward
- If the activity does not meet the fiduciary criteria determine if the activity should be converted to a special revenue fund of the district, or if the district should diversify itself from such activities
- Provide for appropriate budget planning now for FY2019-2020
- If the district is currently reporting a trust fund, verify that such activities fully qualify as a trust under this Statement
- If the district has identified custodial funds, ensure that the district has a process to capture the investment costs going forward for separate reporting on the new Schedule
- Determine when to recognize a fiduciary fund liability for such funds under this Statement
- Apply the Statement retroactively and prepare the required footnote disclosures
- Seek input from the district’s external auditor



## **RECOGNITION OF LIABILITY**

The Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. This is a change from the current reporting and will likely drive the reporting of a net position for fiduciary funds in the future, consistent with the current data pipeline file reporting of net position by agency funds.

Note: If no liabilities are identified, the previously reported 'due to student clubs' will become the net position amount under this Statement.

## **OTHER FIDUCIARY ACTIVITIES REPORTED AS CUSTODIAL FUNDS**

For custodial fund treatment, the activity is a fiduciary activity if all of the following criteria are met:

- a. The assets associated with the activity are controlled by the government. In that, the government (a) holds the assets or (b) has the ability to direct the use, exchange, or employment of the assets in a manner that provides benefits to the specified or intended recipients. Note: If the district is writing the checks for these activities, it is holding the assets.
- b. The assets associated with the activity are not derived either: (1) Solely from the government's own-source revenues (own-source revenues are revenues that are generated by a government itself) or (2) From government-mandated nonexchange transactions or voluntary nonexchange transactions with the exception of pass-through grants for which the government does not have administrative involvement or direct financial involvement. Note: Administrative involvement discussed in more detail below.
- c. The assets associated with the activity have one or more of the following characteristics:
  1. The assets are (a) administered through a trust in which the government itself is not a beneficiary, (b) dedicated to providing benefits to recipients in accordance with the benefit terms, and (c) legally protected from the creditors of the government. Must be a formal trust agreement or equivalent arrangement that meets all 3 of these criteria, including being legally protected from the creditors of the government. It is likely that most "trust" funds being reported by districts currently do not meet these criteria.
  2. 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. This "administrative involvement" criteria appears to be a critical consideration to determine if a fiduciary activity should be reported or not. Note: See administrative involvement discussion below.

## **ADMINISTRATIVE INVOLVEMENT**

A recipient government has administrative involvement if, for example, it (a) monitors secondary recipients for compliance with program-specific requirements, (b) determines eligible secondary recipients or projects, even if using grantor-established criteria, and (c) has the ability to exercise discretion in how the funds are allocated. A recipient government has direct financial involvement if, for example, it finances some direct program costs because of a grantor-imposed matching requirement or is liable for disallowed costs.

Districts should review their policies and procedures in place for the current handling of any fiduciary funds to determine the possible administrative involvement that they are engaged in at present with such activities, to determine how involved their district's staff is in approving or directing these activities.



Per the proposed implementation guide, if a faculty advisor (who is representing the school district and who is acting in the capacity of a school representative) has the ability to reject, modify, or approve how the resources of the student club accounts are spent, the school district would have administrative involvement in this case, and would not report these student club accounts as a fiduciary activity under GASB Statement No. 84. Note: The proposed implementation guidance is not final guidance until formally released by GASB.

Another question in the proposed implementation guide addresses if the school district has established and approved a policy related to the receipt, disbursement, and holding of funds for the various student clubs and organizations that are not legally separate from the school district. If such policy includes specific guidelines related to how the funds raised by the clubs and organization can be spent, the school district would have administrative involvement. Therefore, these student clubs and organizations subject to such board policies would not be reported as a fiduciary activity under GASB Statement No. 84. Again, the proposed implementation guidance is not final guidance until formally released by GASB.

## **CHART OF ACCOUNT CHANGES**

On June 8, 2018, various changes to the chart of accounts (COA) were presented to the Financial Policies and Procedures Advisory Committee (FPP Committee). These included changes to Appendix C for Pupil Activity, to the various fund codes being impacted, and also changes to the source and balance sheet codes. These chart of account changes must be implemented for FY2019-2020, but are optional prior to that fiscal year for any district that wishes to early implement GASB Statement No. 84.

## **INCLUSION OF OTHER NONREPORTED ACTIVITIES**

With the implementation of GASB Statement No. 84, the Department does not anticipate the inclusion of other activities as fiduciary funds that are not currently being addressed by school districts. This Statement did not change the potential component unit determination criteria or other criteria that would necessitate the inclusion of activities that are currently not being reported as fiduciary funds by school districts, such as booster clubs or similar foundations.

The proposed implementation guide includes a question involving a legally separate 501(c)(3) Touchdown Club association that is not a component unit of the school district. In addition, the funds raised by the association are not held in an account of the school district. In this case, this club's activities would not be reported in the financial statements of the school district. Note, the proposed implementation guidance is not final guidance until formally released by GASB.

## **POSSIBLE CHANGES FROM AGENCY FUND TO SPECIAL REVENUE FUND**

After applying the new criteria for determining the activities that should be reported under a fiduciary fund, the government may determine that the current treatment of its old agency funds are no longer valid after implementing GASB Statement No. 84. In such cases and, if the activity meets the criteria for special revenue fund reporting under GASB Statement No. 54, the district may wish to convert the old agency fund to a special revenue fund. This treatment will require the restatement of the net position and fund balance as of the first day of the fiscal year in which the conversion is occurring (as of July 1, 2019, if reported as of June 30, 2020).

## **EXAMPLE FOOTNOTE FOR RESTATEMENT**

The district previously reported the activity of the Pupil Activity Agency Fund (Fund 74) as a fiduciary fund. Beginning in FY2019-2020, such activity has been more appropriately reported in a special revenue fund (Fund 23). Accordingly, the newly established special revenue fund reports a restated beginning balance of \$xxx,xxx, which is equal to the restatement of net current assets and current liabilities previously reported in the agency fund. All remaining assets and liabilities, if any, previously reported in the agency fund are not recognized at the fund level under the modified accrual basis of accounting, and have been reclassified as assets and liabilities of the governmental activities as of July 1, 2019.



## **BUDGET PLANNING**

If the district plans to convert any of its fiduciary funds to special revenue funds for FY2019-2020, be sure to provide for an appropriate budget presentation for such funds during the spring of 2019, prior to the start of the next fiscal year. Be aware that under the GASB Statement No. 54 guidance, that special revenue funds must provide for restricted or committed proceeds that continue to comprise a substantial portion of the inflows reported in these funds.

## **BASIS OF ACCOUNTING FOR FIDUCIARY FUNDS**

The Statement requires the use of the full accrual basis of accounting for reporting of fiduciary funds, including the custodial funds.

### **Where can I learn more?**

- Visit the School Finance website at <https://www.cde.state.co.us/cdefinance>
- Contact Kirk Weber, Financial Accounting Technical Advisor at [weber\\_k@cde.state.co.us](mailto:weber_k@cde.state.co.us)
- GFOA Advisory: Accounting and Financial Reporting for Fiduciary Activities at <http://www.gfoa.org/accounting-and-financial-reporting-fiduciary-activities>
- GASB Statement No. 84, which includes a flow chart to assist with applying the Statement at [https://www.gasb.org/jsp/GASB/Document\\_C/DocumentPage?cid=1176168786182&acceptedDisclaimer=true](https://www.gasb.org/jsp/GASB/Document_C/DocumentPage?cid=1176168786182&acceptedDisclaimer=true)
- GASB Exposure Draft of a proposed Implementation Guide for Fiduciary Activities is at [https://www.gasb.org/jsp/GASB/Document\\_C/DocumentPage?cid=1176171882283&acceptedDisclaimer=true](https://www.gasb.org/jsp/GASB/Document_C/DocumentPage?cid=1176171882283&acceptedDisclaimer=true)
- A CliftonLarsonAllen LLP tool for GASB 84 Student Activity Fund Type Determination is at [http://www.cde.state.co.us/cdefinance/gasb84\\_saf\\_tool](http://www.cde.state.co.us/cdefinance/gasb84_saf_tool)