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**Memorandum # 2021-04**

**TO:** Local Government Finance Officials and Their Independent Auditors

**FROM:** Sharon Edmundson, Deputy Treasurer and Director, State and Local Government Finance Division

**SUBJECT:** GASB Statement No. 84 – *Fiduciary Activities*  
GASB Statement No. 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for IRC Section 457 Deferred Compensation Plans*

**DATE:** September 18, 2020

Governments frequently engage in various fiduciary activities by taking care of moneys that belong to individuals or others outside of the government. Existing standards (GASBS 14 and 61) require reporting of fiduciary responsibilities but do not define what they are. GASB Statements 84 and 97 provide detailed guidance as to what constitutes a fiduciary activity and how to report fiduciary activity. With the Covid-19 pandemic, the implementation of GASB Statement 84 was delayed, but NC local governments with June 30 year ends will need to implement the guidance during the fiscal year ending June 30, 2021.

The implementation of GASB 84 and the related changes in GASB 97 will require numerous changes in the fiduciary reporting for North Carolina local governments. Depending on the specific fiduciary activities of each entity, governments may need to reclassify some activities currently reported as fiduciary to governmental or proprietary funds, which will require a change in budgeting practices during the current fiscal year. Other fiduciary activities may need to be reclassified to different fiduciary fund types. Agency funds are no longer used with the implementation of GASB 84 so agency funds reported will all be another fund type. The standard must be applied retroactively for all periods presented, if practicable; therefore, a restatement of prior-year net position will be required in some instances.

The decisions required to implement GASB 84 and GASB 97 are complex to understand and apply. Therefore, a compressed flowchart like the one found in Appendix C of GASB Statement 84 is an integral part of this memorandum. This resource should help governments visualize the reporting guidance in the statements and determine how to implement this complex guidance. **All the examples in this communication were developed using the attached flowchart to demonstrate the reporting decisions.**

**Example 1 of Flowchart: Defining a Pension or OPEB Component Unit under GASB 84**

First, Is the activity a component unit?

- GASB 84, paragraph 7 defines a pension or OPEB defined benefit plan that meets the criteria of paragraph 3 of GASB 67 for pensions or paragraph 3 of Statement 74 for OPEB as a legally separate entity;
- Paragraph 4 in GASB 97 states that the primary governing board that performs the duties that a board typically would perform when there is not a governing board would be treated the same as a majority appointment of a governing board; and
- Per paragraph 7 of GASB 84, a financial burden exists when a primary government is legally obligated or has otherwise assumed the obligation to make contributions to a pension or OPEB plan.

Once an activity is determined to be a component unit, then we must determine if it fiduciary or non-fiduciary? And if fiduciary, what type of fiduciary fund?

Let's assume that the entity in question has been determined to be a legally separate component unit. Using the flowchart, the next decision point is whether the assets are for pension or OPEB arrangements. If the assets are pension or OPEB assets, the next decision point is whether the pension or OPEB assets are administered through a trust that meets the criteria of Definition 4 in the flowchart (paragraph 3 of GASB Statements 67 or 74).

Those trust criteria are:

- The contributions and the earnings on the contributions are irrevocable;
- The plan assets are dedicated to providing benefits in accordance with plan terms; and
- The plan assets are legally protected from the creditors of the government.

**For North Carolina local governments**, units with OPEB Irrevocable Trust Funds that are invested in the Ancillary Governmental Participant Investment Program (AGPIP) which is held by the state or in other investments will need to report those assets as an OPEB fiduciary component unit.

**Example 2 of Flowchart: Defining a Non-Pension or Non-OPEB Component Unit under GASB 84**

Again, assume that the entity in question has been determined to be a legally separate component unit. Fiduciary non-pension or non-OPEB component units are entities established through the criteria above to be legally separate component units; however, the entity's assets are not held for pension or OPEB arrangements. Per the attached flowchart, the assets are instead evaluated through a series of decision boxes as to whether they meet requirements of GASB 84, paragraph 11 through criteria **C1**, **C2**, or **C3**. Answering "yes" to any of these criteria results in a fiduciary non-pension or non-OPEB component unit. A "No" to all three criteria results in an activity that would be reported as either a governmental or business-type activity.

**Example 3 of Flowchart: Defining Pension or OPEB Benefits that are NOT Component Units under GASB 84. “Yes” to Pension within the Scope of other GASB Guidance**

In this example, assume that the assets in question do not meet the criteria of a legally separate entity. Using the flowchart, the next decision point is whether the government controls the asset per Definition 2 of the flowchart. If the government does not control the assets, then the activity would not be included in the financial statements of the government. If the government answers “yes” to controlling the assets, then the next decision is, “Are the assets held for pension or OPEB benefits?” If “yes” to the pension and OPEB question, then the next decision point looks at the trust criteria in Definition 4 of the flowchart. For a “yes” answer that does meet the criteria of a trust per the GASB requirements, then the assets will be reported in a fiduciary fund.

**Example 4 of Flowchart: Defining Pension or OPEB Benefits that are NOT Component Units under GASB 84. “No” to Pension within the Scope of other GASB Guidance**

Example 4 is the same as Example 3 until the Decision point that looks at the trust criteria in Definition 4 of the flowchart. In the case of a “No” answer, the next decision point is whether the pension or OPEB assets in question are from an entity that is not part of the reporting entity. A “No” answer at this point results in assets that are reported in a governmental or proprietary fund. A “Yes” answer results in the assets being reported in a fiduciary fund. (See Imp Guide 2019-2; Question 4.9)

**Example 5 of Flowchart: Defining Non-Pension or Non-OPEB Benefits that are NOT Component Units under GASB 84. “Yes” to Own Source Revenues**

In this example, assume that the assets in question do not meet the criteria of a legally separate entity. Using the flowchart, the next decision point is whether the government controls the asset per Definition 2 of the flowchart. If the government does not control the assets, then the activity would not be included in the financial statements of the government. If the government answers “yes” to controlling the assets, then the next question is, “Are the assets held for pension or OPEB benefits?” If the assets are not for pension and OPEB benefits, then the next decision point considers whether the revenues in the fund are derived solely from the government’s own sources per Definition 3 of the flowchart. For a “yes” answer according to Definition 3, the assets would be reported in a governmental or proprietary fund. Under GASB 84, activities that are financed by funds that are own source funds are not fiduciary in nature.

**Counties in North Carolina currently report Deeds of Trust Funds within agency funds. GASB 84 eliminates the use of agency funds. Under GASB 84, the revenues associated with deeds of trust are own source revenues that are not fiduciary in nature. With the implementation of GASB 84, these activities will all be reported in special revenue funds that will need to be budgeted prior to June 30, 2021.**

**Example 6 of Flowchart: Defining Non-Pension or Non-OPEB Benefits that are NOT Component Units under GASB 84. “No” to Own Source Revenues, “Yes” to B1 and B2**

In this example, assume again that the assets in question do not meet the criteria of a legally separate entity. Using the flowchart, the next decision point is whether the government controls the asset per Definition 2 of the flowchart. If the government does not control the assets, then the activity would not

be included in the financial statements of the government. If the government answers “yes” to controlling the assets, then the next question is, “Are the assets held for pension or OPEB benefits?” If the assets are not for pension and OPEB benefits, then the next decision point considers whether the revenues in the fund are derived solely from the government’s own sources per Definition 3 of the flowchart.

If the assets are not own source revenues and the answer is “No”, based on Definition 3, then the decision process moves to Section B of the flowchart. Within Section B, the assets are evaluated as to whether they are derived from government-mandated or voluntary non-exchange transactions in B1 and then whether they meet the exception in B2. Government-mandated non-exchange transactions are defined in paragraph 7 of GASB 33 as transactions that occur when a “government at one level (including the federal government) provides resources to a government at another level and requires that government to use them for a specific purpose....”

**The implementation of GASB 84 revealed a long-standing reporting practice North Carolina that needed to be reconsidered. Local governments in North Carolina traditionally have reported Fines and Forfeitures and Representative Payee (or DSS Fund) Funds within agency funds. However, the revenues associated with these activities meet the definition of government-mandated non-exchange transactions per GASB 33 and are therefore not fiduciary in nature. These activities should be reported in special revenue funds that will need to be budgeted prior to June 30, 2021.**

**Example 7 of Flowchart: Defining Non-Pension or Non-OPEB Benefits that are NOT Component Units under GASB 84. “No” to Own Source Revenues, and “No” to B1 and B2**

Section C of the flowchart is applied in several different scenarios one of which is discussed in Example 2 above. In this example, the assets are not held by a separate entity although the government does control them per Definition 2. The assets are not own source revenues or government-mandated or voluntary non-exchange transactions. The next decision point is Section C which considers questions in C1, C2, or C3. Answering “yes” to any of these criteria results in the assets in question being reported in a fiduciary fund. A “No” to all results in the assets in question being reported in a governmental or proprietary fund.

These examples have been provided to help you get familiar with the flowchart and the decision-making process to apply as you review your own fiduciary activities. They are not all-inclusive and only address some of the more common situations in North Carolina. Local governments and their auditors will have to review the government’s fiduciary activities and make their own decisions about existing activities that differ from the examples here.

**Reporting Under GASB 84**

**What are the types of Fiduciary Funds?**

**Pension and Other Employee Benefit Trust Funds (GASB 84, paragraph 15)**

The trust agreement for a Pension or OPEB Trust Fund must meet the criteria of paragraph 3 from either GASB Statements 67 or 74, respectively. In North Carolina, OPEB Trust Funds with contributions invested in the AGPIP Funds held by the state are an example of OPEB Trust funds as defined in paragraph 15.

### **Investment Trust Funds**

Investment Trust Funds are generally not applicable for North Carolina local governments; although there may be isolated cases where these would be used in a limited manner. Most governments can disregard.

### **Private-Purpose Trust Funds (GASB 84, paragraph 17)**

Private-purpose trust funds are used to report fiduciary activities not reported in the first two types of trust funds but that are held in a trust or an equivalent arrangement that meets the requirements of paragraph 11c (1).

### **Custodial funds (GASB 84, paragraph 18)**

Custodial Funds are used to report any fiduciary activities that are not required to be reported in the previous types of fiduciary funds. In North Carolina, examples of custodial funds are Jail/Inmate Pay Funds and the property taxes collected by the County on behalf of a municipality (excluding any fees charged).

Business-type activities may report assets and the corresponding liabilities that otherwise should be reported in a Custodial Fund as long as they are expected to be held for three months or less (GASB Statement 84, Paragraph 19). This three-month exception will be especially helpful when a utility is collecting fees for another local government. Exchange transactions, such as customer deposits, that are funded with own source revenues would be reported in the proprietary fund and are not fiduciary in nature.

### **Fiduciary Fund Financial Statements**

Both the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position will be presented under GASB Statement 84 guidance. Liabilities should be recognized in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources consistent with the economic resources measurement focus that is used in proprietary funds. In the fiduciary statements, a single column for each of the three fund types typically seen in North Carolina will be presented, but no total column will be included on the right-hand side of the statements as is presented with non-fiduciary activities. Fiduciary component units are combined with their fund type and reported in the appropriate fiduciary type column.

The Statement of Fiduciary Net Position will need to be formatted in the net position format, including the financial statement elements assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position. No classified presentation of current vs. noncurrent assets should be used. Assets and liabilities will be presented in order of liquidity.

The Statement of Changes in Fiduciary Net Position will report the additions and deductions of Pension and OPEB Trust Funds, Private-Purpose Trust Funds, and Custodial Funds. Additions should be disaggregated and reported by source. Deductions should be disaggregated by type and administrative expenses should be broken out if possible. Increases and decreases may not exactly correspond to revenues and expenses and we urge local governments to review the guidance in GASB Codification Section 2200-199 for more information.

If a governmental unit has more than one of a given fiduciary fund type combined in one column within the basic fiduciary statements, then it will need to provide a Combining Statement of Fiduciary Net Position and a Combining Statement of Changes in Fiduciary Net Position in the financial statements.

**NCGS 159-13 (a) (3) excludes trust and agency funds held by a local government or a public authority from being budgeted, and we plan to ask for a technical correction to extend the budgetary exclusion to all fiduciary funds in the near future. In the interim, we are not requiring local governments to budget custodial funds since these funds continue to be fiduciary in nature as agency funds were.**

The staff of the State and Local Government Finance Division will be updating the fiscal year 2021 illustrative statements for City of Dogwood, Carolina County, Carolina County Board of Education, and the Charter Schools for the impact of the GASB fiduciary guidance on NC Local governments. As usual, we expect to issue these in the Summer of 2021. In the meantime, Appendix D of GASB Statement 84 provides illustrations of how the fiduciary fund statements might be presented.

**What you should be doing now to prepare?**

1. Review all component units, current fiduciary, and current agency relationships, comparing the legal organization to the flowchart provided to determine the reporting changes needed to be made by June 30, 2021.
2. Educate your manager and governing board about the reporting and budgeting changes for Fines and Forfeitures, Representative Payee (Counties only), and Deeds of Trust (Counties only) that will need to be budgeted during the current fiscal year as a result of accounting standard changes.
3. Develop estimates for those budgeting changes for the 2021 fiscal year based on averages or trends over the past years.
4. Consider financial applications, general ledger accounts, and modifications that will be required for reporting required additions and deductions, inflows and outflows needed for financial statements. Work with your software provider if reports need to be revised to obtain this information.
5. Review Implementation Guide No. 2019-2, *Fiduciary Activities*, and GASB Statement 97 which are now available on the GASB website.

There are two appendices attached to this memorandum. Appendix 1 is a general summary of the proposed reporting treatments in the various illustrative statements for the fiscal year ending June 30, 2021. Appendix 2 is a flowchart that is like the one in the GASB Statement 84 Appendix C. The flowchart is intended to help you evaluate and determine the proper presentation for various possible fiduciary activities.

If you have any questions, you can call us at (919) 814-4299 or email us at [SLGFD@nctreasurer.com](mailto:SLGFD@nctreasurer.com).

## Appendix 1: Highlighted Reporting Changes to 2021 Illustrative Financial Statements

### City of Dogwood Reporting Changes in FYE 2021:

- Cemetery Permanent Fund –The Cemetery Permanent Fund accounts for assets that are restricted for the perpetual care of the municipal cemetery. Only the earnings of the fund, not the principal, may be used to support the cemetery. The City holds the funds which are the revenue from plot sales and the related interest earnings that are restricted for maintenance of the cemetery.

Note to statement preparers: In the City of Dogwood statements, we assume that the cemetery assets are not administered through a trust or an equivalent arrangement and that the City itself benefits from the sale proceeds and related earnings. Under this assumption, the City's cemetery funds are not a legally separate entity or a component unit. The assets are controlled by the City but are not for pension or OPEB uses. The plot sales represent an exchange transaction that are the City's own source revenues and would be reported in a governmental fund. Under this set of assumptions, the City's cemetery activities would continue to be reported in a Cemetery Permanent Fund. Depending upon the contractual agreement with the plot owners, the City might instead report cemetery funds as a department in the General Fund.

Depending upon the legal circumstances, a different presentation of cemetery assets would be appropriate. For instance, if the City holds the cemetery assets in trust that meets the GASB requirements for a non-profit organization that owns the cemetery assets, then the assets would be reported as a fiduciary activity. Statement preparers and their auditors are urged to review the legal circumstances and any contractual requirements associated with their own cemetery assets and determine the most appropriate treatment.

- Agency Funds – Fines and Forfeitures. The City of Dogwood maintains an agency fund for fines and forfeitures that it is required to remit to the Carolina County Board of Education. Agency funds are no longer used for reporting under GASB 84; therefore, the Fines and Forfeitures reporting will have to change with the implementation of the standard. Fines and forfeitures meet the definition from GASB 33 of imposed nonexchange transactions that are defined as own-source revenues in paragraph 13 of GASB 84. These activities are reported within governmental funds because activities that are financed with own-source revenues do not meet the definition of fiduciary funds in GASB 84. The City of Dogwood has chosen to report these activities in a special revenue fund.

NCGS 159-13(a)(3) excludes agency fund transactions from being budgeted. With the implementation of GASB 84 during the fiscal year ending June 30, 2021, fines and forfeitures should be budgeted, accounted for and reported in a special revenue fund. The budgetary change should be made during fiscal year 2021 for all fines and forfeiture transactions. Depending upon other budgetary items noted by a local government's auditor in the audit report, we will probably not send unit letters for nonbudgeted fines and forfeitures during the fiscal year ending June 30, 2021.

### County Reporting Changes in FYE 2021:

- Jail Inmate Pay (previously reported in the General Fund). Jail inmates have jobs in the jail and their earnings are deposited into their accounts. Their families and friends also may choose to deposit funds into their accounts and the account balances are returned to them when they are released or transferred to another facility. These funds are not own-source revenues and individuals, not the government, are the beneficiaries. The government generally does not have administrative involvement because the inmates have discretion over how these funds are spent. Based on paragraph 18 of the guidance, these are custodial funds because they don't meet the requirements to be reported in any other fiduciary

funds (GASB 84, paragraph 18; Implementation Guide 2019-2, Fiduciary Activities, Questions 4.14, 4.24 and 4.42).

- OPEB Trust Fund –The (AGPIP) trust assets, which are held by the State of NC, are administered through a defined benefit plan that is a legally separate entity from the County per paragraph 7 of GASB 84. Per paragraph 4 of GASB Statement 97, if a potential component unit of a defined benefit pension or OPEB plan does not have a governing board and the primary government performs the duties that a governing board would typically perform, then the pension or OPEB plan would be treated as a component unit whose voting majority is appointed by the governing board. Since the County’s governing board performs the duties that a governing board of the OPEB Trust would perform if there was one, the OPEB Trust Fund will be treated as the appointment of a voting majority of a governing board. Per paragraph 7 of GASB 84, the County is obligated to fund the OPEB commitments to employees and has assumed an obligation to make those contributions to the OPEB plan. As a result, the OPEB Trust AGPIP Fund will be reported as a blended component unit. (GASB 14; GASB 61, paragraphs 8a, 68; GASB 84, paragraphs 4, 6b, 7; GASB 97, paragraphs 4, 5; Implementation Guide 2019-2; Question 4.1)

Note to Preparer of illustrative statements: It is incumbent on the unit and its auditor to verify that there is an OPEB trust agreement in place that meets the requirements of GASB 74, para 3. If no trust is in place, there is no assumption of a legally separate entity per GASB 84, paragraph 7. In this case, although the government may intend for the assets to be used for OPEB benefits, the assets are defined as own-source revenues under the guidance and would be reported with governmental and/or proprietary funds.

- Agency Funds – DSS Client Accounts. Renamed **Representative Payee Funds**. See the federal website at <https://www.ssa.gov/payee/faqrep.htm> for a thorough discussion of these funds. Under the Social Security’s Representative Payee Program, the County receives and manages funds for minor children and certain adults. These funds are not derived from the government’s own source revenues. They meet the definition of government-mandated non-exchange transactions but not the pass-through grant exception. Additionally, these funds are not held in a trust; are used by the government to provide goods and services for individuals; and are not held for the benefit of an organization. As a result, these funds are not considered fiduciary in nature but should be reported in a governmental fund. Carolina County has chosen to report these activities in a special revenue fund.

NCGS 159-13(a)(3) excludes agency fund transactions from being budgeted. With the implementation of GASB Statement 84 during the fiscal year ending June 30, 2021, these funds should be budgeted, accounted for and reported in a special revenue fund. The budgetary change should be made during fiscal year 2021 for all Representative Payee Fund transactions. Depending upon other budgetary items noted by a local government’s auditor in the audit report, we will probably not send unit letters for nonbudgeted Representative Payee Funds during the fiscal year ending June 30, 2021.

Note to Preparer: The fund should be retitled to **Representative Payee Funds**. Also, in the notes to the financial statements, consider adding a link to the federal website at <https://www.ssa.gov/payee/faqrep.htm>.

- Agency Funds-Fines and Forfeitures. The County maintains an agency fund for fines and forfeitures that it is required to remit to the Carolina County Board of Education. Agency funds are no longer used for reporting under GASB 84; therefore, the Fines and Forfeitures reporting will have to change with the implementation of the guidance. Fines and forfeitures meet the definition in GASB 33 of imposed

nonexchange transactions that are defined as own-source revenues in paragraph 13 of GASB Statement 84. These activities are reported within governmental funds because activities financed with own-source revenues do not meet the definition of fiduciary funds in GASB 84. Carolina County has chosen to report these activities in a special revenue fund.

NCGS 159-13(a)(3) excludes agency fund transactions from being budgeted. With the implementation of GASB 84 during the fiscal year ending June 30, 2021, fines and forfeitures should be budgeted, accounted for and reported in special revenue fund. The budgetary change should be made during fiscal year 2021 for all fines and forfeiture transactions. Depending upon other budgetary items noted by a local government's auditor in the audit report, we will probably not send unit letters for nonbudgeted Fines and Forfeiture Funds during the fiscal year ending June 30, 2021.

- Agency Funds – Municipal Tax Collections. The County bills and collects property taxes on behalf of other tax-levying municipalities and fire service districts within its jurisdiction. With the implementation of GASB Statement 84, the taxes collected are reported in a custodial fund. The fees the County charges to collect the taxes are not reported in the custodial fund but in the General Fund since they are own-source revenues, not fiduciary funds. (GASB 84, Paragraph 11 c (1), 18; Imp Guide 2019-2, questions 4.38 and 4.42).
- Agency Funds – Deed of Trust. The Deed of Trust Fee agency fund accounts for a portion of each fee that is collected by the county register of deeds for registering or filing a deed of trust or a mortgage. These amounts are remitted to the State Treasurer on a monthly basis by the County. After the implementation of GASB Statement 84, these assets are accounted for within governmental funds. Carolina County controls the assets as required in paragraph 12; however, the amounts are derived from the government's own-source revenues as defined in paragraph 13. Therefore, by definition, these revenues do not meet the definition of fiduciary activities in paragraph 11 b (1) and would not be reported within a fiduciary fund. Carolina County has chosen to report these activities in a special revenue fund.

NCGS 159-13(a)(3) excludes agency fund transactions from being budgeted. With the implementation of GASB 84 during the fiscal year ending June 30, 2021, deeds of trust should be budgeted, accounted for and reported in a special revenue fund. The budgetary change should be made during fiscal year 2021 for all Deed of Trust Fund transactions. Depending upon other budgetary items noted by a local government's auditor in the audit report, we will probably not send unit letters for nonbudgeted Deed of Trust transactions during the fiscal year ending June 30, 2021.

#### **Board of Education (BOE) Reporting Changes in FYE 2021:**

- Individual Schools – Major governmental Special Revenue Funds. The Individual Schools Fund accounts for and reports the revenues and expenditures for activity funds of the individual schools. The primary revenue sources include funds held on the behalf of the various clubs and organizations, receipts from athletic events, and proceeds from fund-raising activities. The primary expenditures of the Individual School Funds are for athletic teams, club programs, activity buses, instructional needs.

Note to Preparer: The individual schools are not legally separate entities. In the BOE example, we assume that the School System controls the Individual Schools Fund assets because the amounts are deposited into a bank account managed by the administrative unit. The funds are not own-source revenues or government-mandated nonexchange transactions, and they are not held in a trust or an equivalent arrangement. Assuming the School System policy details how the individual school funds can be spent, the School System has administrative involvement per the criteria in 11c (2). The assets are for the benefit of individual schools that are part of the financial reporting entity per 11c (3); therefore, these assets should be reported with governmental funds. This activity would be unchanged with the implementation of GASB Statement 84 and will continue to be reported in the special revenue fund.

Depending upon the policies and legal structure of a given school system's clubs and activities, the presentation of these types of activities for each board of education may be different. Implementation Guide No. 2019-2, *Fiduciary Activities*, has numerous examples of how to apply GASB Statement 84 to reporting club and scholarship activities based on how each system's policy. Refer to questions 4.16 through 4.23 and 4.28 in Implementation Guide 2019-2, *Fiduciary Activities*, for more information.

Administrative Fund - Private Purpose Trust Fund for Scholarships. Carolina County Board of Education has one fiduciary fund – the Administrative Fund, which is a scholarship fund under the control of the administrative unit. These assets are currently accounted for as a private purpose trust fund.

Note to Preparer: Assuming that it is not a legally separate entity, that the system controls the assets, and that there is a legal trust agreement in place, the activity would continue to be reported in a fiduciary fund. This fund continues to meet the definition of a private purpose fund per paragraph 17 of GASB 84; therefore, the implementation of this standard does not change the reporting for the Administrative Fund.

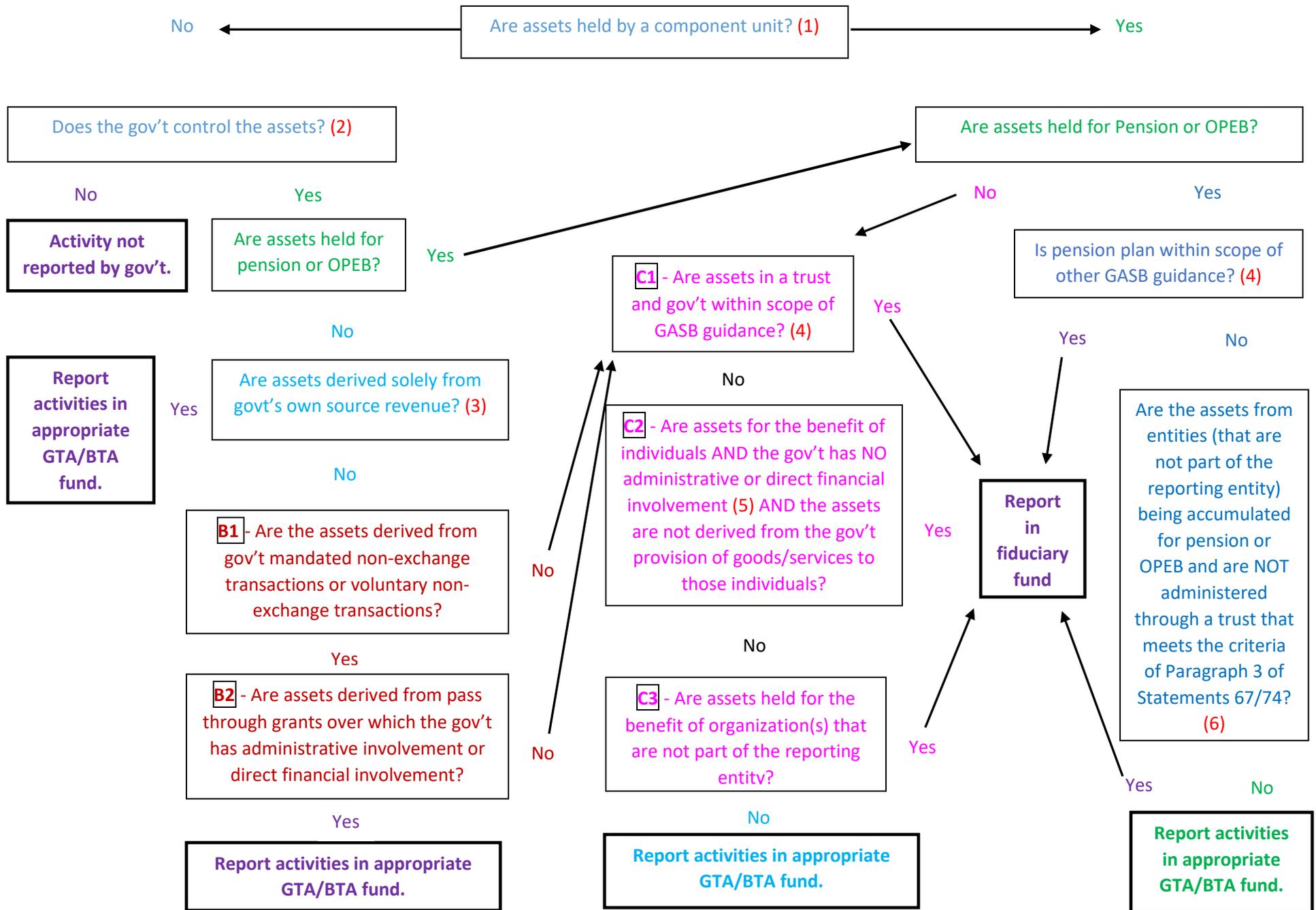
The legal agreements associated with a scholarship fund or an endowment fund will impact the reporting under GASB Statement 84. For example, if the Administrative Fund is a legally separate entity, then it would be reported as a fiduciary component unit. If the Administrative Fund is not controlled by the local board of education, then the activity would not be reported by the government in the financial statements. If there is no legal trust in place, then depending upon additional criteria, these funds might not be considered as fiduciary but governmental in nature. In that case, the Administrative Fund would be reported in a special revenue fund. We urge local governments and their auditors to review these legal agreements and determine the appropriate treatment.

### **Charter Schools Reporting Changes for FYE 2021:**

- Clubs and Activities Fund - Non-Major Special Revenue Fund. The Club and Activities Fund is used to account for the funds raised and earned by the various clubs and activities, including the athletic teams that are part of the School. The use of revenue sources is restricted by school policy for expenditures for the various clubs and organizations, athletic events and fund-raising activities for which they were collected. There is a policy establishing specific guidance on how the revenues can be spent and a staff advisor approves all expenditures which are made from the school's bank account.

Note to Preparer: In the situation presented here, the School does have administrative involvement per the criteria in 11 c (2); therefore, the activity would continue to be reported in the special revenue fund. Depending upon the policies and legal structure of a given charter school's clubs and activities, the presentation of these activities for each school may be different. Implementation Guide No. 2019-2, *Fiduciary Activities* has numerous examples of how to apply GASB 84 to reporting club and scholarship activities based on how each charter school's policy. Refer to questions 4.16 through 4.23 and 4.28 in Implementation Guide 2019-2, *Fiduciary Activities*, for more information.

## Appendix 2: When Should an Entity Report an Activity in a Fiduciary Fund in Accordance with GASB Statement No 84?



## Appendix 2: When Should an Entity Report an Activity in a Fiduciary Fund in Accordance with GASB Statement No 84?

### Notes and Definitions:

- (1) Component Unit:** Legally separate entity that meets the definition of a component unit as defined by GASB 14, as amended.
- (2) Control of Assets:** The government holds the assets or the government 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. Restrictions for use of a specific purpose do not negate control of assets. (GASB 84, Paragraph 12)
- (3) Own Source Revenue:** Revenues generated by government itself, including exchange and exchange-like revenues and investment earnings, derived tax revenues and imposed non-exchanged revenues.
- (4) Pension or OPEB is within scope of other GASB Guidance:** Assets are administered through a trust that meets criteria of Paragraph 3 of GASB Statements No. 67 for pensions or Statement No. 74 for OPEB.
- (5) Administrative Involvement or Direct Financial Involvement:** Administrative: Monitor compliance with requirements of activity or determines eligible expenditures that are established by the government or by a resource provider that does not receive the direct benefits of the activity; or if it has the ability to exercise discretion in how assets are allocated. Direct Financial: Provide matching resources for the activities.
- (6) See Paragraph 116 in Statement No. 73 for pensions or Paragraph 59 in Statement No. 74 for OPEB.**