



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

MEMORANDUM

TO: Counties with GAAP Financial Statements
FROM: Lori Rogers, CPA, CFE Director of Audit Services
RE: Auditees Identifying Fiduciary Activities in Accordance with GASB 84_Counties
DATE: September 8, 2020

Dear Officials:

Please read the following regarding fiduciary activities in accordance with GASB 84. If you have any questions do not hesitate to contact us.

SUMMARY

Fiduciary Activities are accounted for in the funds that the county is holding for the benefit of others. An example of a fiduciary fund would be a pension trust fund, where the county has custody of the funds, but those funds are required to be held in trust for the payment of retirement benefits. GASB 84 provides guidance for the identification and reporting of fiduciary activities. It will be necessary to review current fund classifications to determine if funds need to be reclassified in order to comply with GASB 84. Funds that were classified as Agency funds may not be fiduciary funds and funds that are held for the benefit of the county would not be considered fiduciary funds.

Any funds the county has that contain the county's own source revenue would not be considered fiduciary activity funds. Those own source revenues are described as exchange and exchange-like revenues, derived tax revenues, and imposed nonexchange revenues.

Examples of these revenues are:

Exchange and exchange-like revenues

Fees for services performed by County personnel/officials and those fees are retained by the County such as Auditor endorsement fees, copy fees, and recording fees.

Fees for licenses and permits where the fees are retained by the County such as building permits.

Derived tax revenues

Taxes imposed on exchange transactions (Innkeepers Tax)

Imposed nonexchange revenues

Property taxes (County's property tax levy)

Fines and penalties that are retained by the County (Court costs and fees)

In addition, there are funds that are being held by the County for the County's benefit including:

Retainage held from construction payments

Performance deposit on construction contracts

Payroll withholdings from employees and employer accrued payrolls

OTHER USEFUL INFORMATION

GASB 84 eliminated the Agency fund category that had been classified as a fiduciary activity. Payroll withholding funds had been classified as agency funds and will no longer be considered a fiduciary fund. GASB 84 also established the criteria for identifying fiduciary activities to provide more consistency in reporting. Four fiduciary funds were established including one fund called Custodial. The other three funds are pension trust, investment trust and private purpose trust funds.

GASB 84 requires additional reporting for Custodial Funds and the Financial Statements must include a Statement of Changes in Net Position for Custodial funds. Prior to GASB 84, Agency funds such as the payroll withholding funds did not report a Statement of Changes in Net Position.

APPLICATION TO INDIANA COUNTIES

Funds that have been reported as agency funds in the past need to be evaluated to determine if they meet the definition of a fiduciary activity and a Custodial fund under GASB 84. GASB 84 is effective for reporting periods beginning after December 15, 2019, however early implementation is allowable. This evaluation needs to be applied to the funds brought into the financial statements from the Supplemental Annual Financial Reports from the departments such as the Sheriff and Clerk's office.

Funds that consist only of the county's own-source revenue are not custodial funds. This would include tax distribution funds that only account for the county's allocation of property taxes; funds that only account for innkeeper's tax; funds that only account for fines, penalties, license and permit fees that are retained by the county; funds that only account for service fees retained by the county, etc. These funds should be classified as special revenue funds.

Some funds hold a combination of the county's own-source revenue and amounts that are to be distributed to other entities such as the State or other local governments. For these funds the county will need to determine the amount within the fund that represents amounts that will be kept by the county as opposed to the funds that will be remitted to the State or other local governments. The County portion will be re-allocated to the county's funds to which these amounts will ultimately be distributed to in the subsequent fiscal period. For After Settlement Collections of the Treasurer, the method of re-allocation may be based on the rates used in the fall settlement if that is a reasonable estimate of the distribution that will be used at the following spring settlement. For amounts distributed monthly, such as fees collected, the actual distribution in the first month of the subsequent fiscal year would be the best basis for the re-allocation.

Implementation Guide 2019-2, Question 4.15 clarifies that payroll withholding funds are not fiduciary funds. These amounts are liabilities of the county and should be re-allocated to the funds from which they originated and reported as liabilities.

Custodial funds will be included on the Statement of Changes in Net Position for fiduciary funds regardless of whether they have a beginning or ending net position.

Applicable Authoritative Literature

GASB Cod. § 1300

.134 For activities not addressed in paragraphs .129–.133 (component units that are pension and OPEB plans, pension and OPEB plans administered through trusts, and other component units), the activity is a fiduciary activity if all of the following criteria are met:

The assets associated with the activity are controlled by the government (as described in paragraph .135). The assets associated with the activity are not derived either:

Solely from the government's own-source revenues (as described in paragraph .136) or

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. Footnote 12

The assets associated with the activity have one or more of the following characteristics:

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.

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.

{GASBS 84, ¶11}

.135 A government controls the assets of an activity if 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. Restrictions from legal or other external restraints that stipulate the assets can be used only for a specific purpose do not negate a government's control of the assets. [GASBS 84, ¶12]

.136 Own-source revenues are revenues that are generated by a government itself. They include exchange and exchange-like revenues (for example, water and sewer charges) and investment earnings. Derived tax revenues (such as sales and income taxes) and imposed nonexchange revenues (such as property taxes) also are included. [GASBS 84, ¶13]

GASB Cod. § N50

.104 In a nonexchange transaction, a government (including the federal government, as a provider) either gives value (benefit) to another party without directly receiving equal value in exchange or receives value (benefit) from another party without directly giving equal value in exchange. This section groups nonexchange transactions of governments into four classes, based on their principal characteristics:

Derived tax revenues result from assessments imposed by governments on exchange transactions. Examples include taxes on personal income, corporate income, and retail sales of goods and services. The principal characteristics of these transactions are (1) the assessing government imposes the provision of resources on the provider (the entity that acquires the income, goods, or services) and (2) the government's assessment is on an exchange transaction, such as the exchange of an employee's services for a wage or salary or the exchange of motor fuel for the market price of the fuel. Enabling legislation sometimes requires a particular source of derived tax revenues to be used for a specific purpose or purposes. For example, revenues resulting from a motor fuel tax may be required to be used for road and street repairs. Stipulations concerning the purpose for which resources are required to be used are referred to in this section as purpose restrictions and are discussed in paragraph .111.

Imposed nonexchange revenues result from assessments by governments on nongovernmental entities, including individuals, other than assessments on exchange transactions. Examples include property (ad valorem) taxes; fines and penalties; and property forfeitures, such as seizures and escheats. The principal characteristic of these transactions is that the required transmittal of resources to the assessing government is imposed by that government on an act committed or omitted by the provider (such as property ownership or the contravention of a law or regulation) that is not an exchange transaction. Enabling legislation sometimes places purpose restrictions on the use of the resources. Alternatively, or in addition to purpose restrictions, the government may specify the period when the resources are required to be used or when use may begin. For example, property taxes generally are required to be used in or beginning in a particular period—the period for which the taxes are levied—which may not be the same period that payment is due or the period when the government has a right to place a lien on the property. Stipulations concerning the time period when resources are required to be used or when use may begin are referred to in this section as time requirements and are discussed in paragraphs .109 and .110.

GASB Cod. § 2200

.759-2 Q—A government uses a clearing account to accumulate resources from withholding of employee payroll deductions and accrued employer payroll taxes that will be submitted to the appropriate taxing bodies when due. Should the government report the clearing account in its fiduciary fund financial statements?

A—No. Although the government has control of the assets because it has custody of the cash withheld, the unremitted amounts in the clearing account are a liability of the government. When the deductions are withheld from an employee's pay, the amounts withheld and accrued by the employer become a present obligation to sacrifice resources that the government has no discretion to avoid and, therefore, are liabilities of the government. As a result, the government is holding the amounts for its own benefit and the criteria in paragraph .134c of Section 1300 are not met.

Comprehensive Implementation Guide, Chapter 7 (also found in GASB Cod. § 2200.759-1)

7.81 Reporting Custodial Funds

7.81.1. Q—A county tax collector collects property taxes for all taxing bodies in the county, including the tax-levying funds of the county. The county uses a custodial fund as a distribution mechanism for the taxes. At year-end, the collector is holding \$3,450,000 in the tax distribution account. Of that total, \$750,000 will be distributed to the county funds, and the remaining \$2,700,000 represents taxes collected for the other taxing bodies in the county. How should the county report the portion collected and on hand for the county's purposes?

A—In the county's financial statements, the tax collector's custodial fund would report only the \$2,700,000 in cash with an equal amount as a liability to other taxing bodies. The \$750,000 collected and on hand for the county's funds would be reported as cash (rather than taxes receivable or due from custodial funds) in the appropriate funds. In essence, the collector has a "pooled" cash account, similar to an internal investment pool. The allocation of cash balances to the county funds is consistent with the requirement in paragraph 14 of Statement 31 that requires the "equity position" of each fund in an internal investment pool to be reported as assets in those funds.