

## Implementing GASB 84 Fiduciary Activities – A Primer

Does your governmental organization ever hold or otherwise control assets on behalf of, or for the benefit of, third-party beneficiaries? If so, you should be prepared for the impact of the new accounting standard on fiduciary activities.

In January 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 84 *Fiduciary Activities* (GASB 84), and in June 2020 amended the standard with the issuance of Statement No. 97 *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* (GASB 97). These updates provide specific criteria for governmental reporting entities to identify and report fiduciary activities and further clarify how and when business-type activities should report fiduciary activities. While the standard is intended to enhance consistency and comparability for fiduciary activity reporting, navigating the standard may be daunting to some organizations.

In particular, the new standard may have a significant impact on those organizations that have not historically reported fiduciary activities. Certain entities such as governmental hospitals, institutions of higher education and others that are engaged only in business-type activities have often traditionally presented their basic financial statements in a single fund, single column format. The requirement to include fiduciary fund financial statements as a separate part of the basic financial statements will be a new and novel reporting requirement for many of these special-purpose governmental entities.

DHG is providing the following primer to share our technical insight regarding the evolving complexities of the new standards on fiduciary activities and help your organization move forward with implementation and reporting.

For your quick reference, you may access [GASB 84 here](#) and [GASB 97 here](#).

For implementation FAQs, [Chapter 11 of the Comprehensive Implementation Guide](#) is also a helpful resource.

### WHAT IS A FIDUCIARY ACTIVITY?

Traditionally, the most common types of fiduciary activities have been defined benefit pension and other post-employment benefit (OPEB) plans, which continues to be the case under the new standard (but with a twist). Other activities that are determined to be investment trust funds, private purpose trust funds and custodial funds will also qualify as fiduciary activities and will need to follow the updated reporting guidelines.

The new standard differentiates between certain types of fiduciary activities:

- Fiduciary component units
- Pension and OPEB arrangements that are not component units
- Other fiduciary activities

## FIDUCIARY COMPONENT UNITS

The new standard first lays out the criteria for a fiduciary component unit, which is an arrangement that is a component unit under GASB Statement No. 14 (GASB 14) and is either:

- A pension plan administered through a trust;
- An other post-employment benefit plan administered through a trust;
- A circumstance in which assets from entities that are not part of the reporting entity are accumulated for pensions; or
- A circumstance in which assets from entities that are not part of the reporting entity are accumulated for OPEB.

In accordance with GASB 14, a component unit is a separate legal entity over which a governmental reporting entity has financial accountability. Generally, a pension or OPEB plan that is administered through a trust would be considered a separate legal entity, and thus should be evaluated as a potential component unit under GASB 14. Financial accountability is broadly determined based on whether a financial benefit or burden exists (e.g., if there is an obligation to make contributions to the plan) and a voting majority of the board is appointed by the governmental reporting entity.

If a defined benefit plan does not have a separate governing board, it is required to be treated the same as if the primary government appointed a voting majority (assuming the primary government performs the duties that a governing board would typically perform). Defined contribution plans and Internal Revenue Code (IRC) Section 457 plans were exempted from this requirement with the issuance of GASB 97, which has the effect of limiting the number of such arrangements that will meet the criteria as fiduciary component units and, thus, be considered fiduciary activities under GASB 84.

It should be noted that while much of the focus of the criteria for fiduciary component units is on pension and OPEB arrangements, any arrangement that meets the relevant criteria described above would be considered a fiduciary component unit.

## PENSION AND OPEB ARRANGEMENTS THAT ARE NOT COMPONENT UNITS

If it is determined that an arrangement is not a fiduciary component unit, a reporting entity would then determine whether an arrangement meets the criteria for pension and OPEB arrangements that are not component units. These are situations in which the component unit criteria under GASB 14 are not met, and in which the governmental entity has control over the assets of an arrangement that is either:

- A pension plan administered through a trust;
- An other post-employment benefit plan administered through a trust;
- A circumstance in which assets from entities that are not part of the reporting entity are accumulated for pensions; or
- A circumstance in which assets from entities that are not part of the reporting entity are accumulated for OPEB.

If these criteria sound familiar, it is because they are the same as those for fiduciary component units, except as applied to arrangements in which the governmental entity has control over assets rather than financial accountability over a separate legal entity.

A governmental entity is considered to have control over assets if the entity either holds the assets or 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 any other external restraints that stipulate the specific purpose and use of the assets generally do not negate the government from having control of the assets.

## OTHER FIDUCIARY ACTIVITIES

If it is determined that an arrangement does not meet the definition of a fiduciary component unit or a pension or OPEB arrangement that is not a component unit, a governmental entity should evaluate whether an arrangement is an other fiduciary activity, which is an arrangements that meets each of the following criteria:

- The assets are controlled by the governmental reporting entity.
- The assets are not derived from either:
  - » A government's own source revenue; or
  - » Government-mandated or voluntary non-exchange transactions.
- The assets are either held:
  - » In a qualifying trust in which the government is not a beneficiary, are legally protected and are dedicated to providing benefits to recipients;
  - » For the benefit of individuals without administrative or direct financial involvement from the government; or
  - » For the benefit of outside organizations not part of the governments reporting entity.

## PRESENTATION AND DISCLOSURE

If you determine that your organization has fiduciary activities, you must present fiduciary fund financial statements as part of the basic financial statements of the primary government. The fiduciary fund financial statements are summarized and presented by type (i.e., pension and OPEB trust funds, investment trust funds, private purpose trust funds and custodial funds) and include all fiduciary activities, including fiduciary component units, pension and OPEB arrangements that are not component units, and other fiduciary activities.

The fiduciary fund financial statements are comprised of a Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position, with accompanying notes that define what a fiduciary fund is and provide detailed disclosures regarding the information presented in the fiduciary fund financial statements.

## EFFECTIVE DATE AND TRANSITION

For governmental reporting entities with pension and OPEB plans, GASB 84 is effective for reporting periods beginning after Dec. 15, 2019. The standard should be applied retroactively by restating financial statements, if practicable, for all prior periods presented. If restatement is not practicable, the cumulative effect, if any should be reported as a restatement of beginning net position for the earliest period restated.

### "SHORT-TERM" EXCEPTION

GASB 84 does include a "short-term" exception for a business-type activity that normally expects to retain assets for a period of three months or less.

### DEFINED CONTRIBUTION PLANS AND IRC 457 PLANS

GASB 97 amended GASB 84 to provide relief by excluding defined contribution plans and IRC Section 457 plans from the requirement that, for the purpose of evaluating whether an arrangement is a fiduciary component unit, in the absence of a separate governing board, a benefit plan is to be treated the as if the primary government appoints a voting majority. Prior to this amendment, the application of GASB 84 would have resulted in such defined contribution plans and IRC 457 plans being determined to be fiduciary component units.

**DEFINED CONTRIBUTION PLANS AND IRC 457 PLANS continued**

With the update from GASB 97, such plans generally will not meet the definition of a fiduciary component unit. However, they should continue to be evaluated as potential fiduciary activities, as either pension and OPEB arrangements that are not component units or other fiduciary activities.

GASB 97 also updates and clarifies the general accounting and reporting requirements for IRC 457 plans, indicating that such arrangements be classified as either a pension plan (as defined in GASB Statement No. 67 or Statement No. 73) or an other employee benefit plan. For those that meet the definition of a pension plan, all relevant accounting and reporting guidance for pension plans under the standards should be applied.

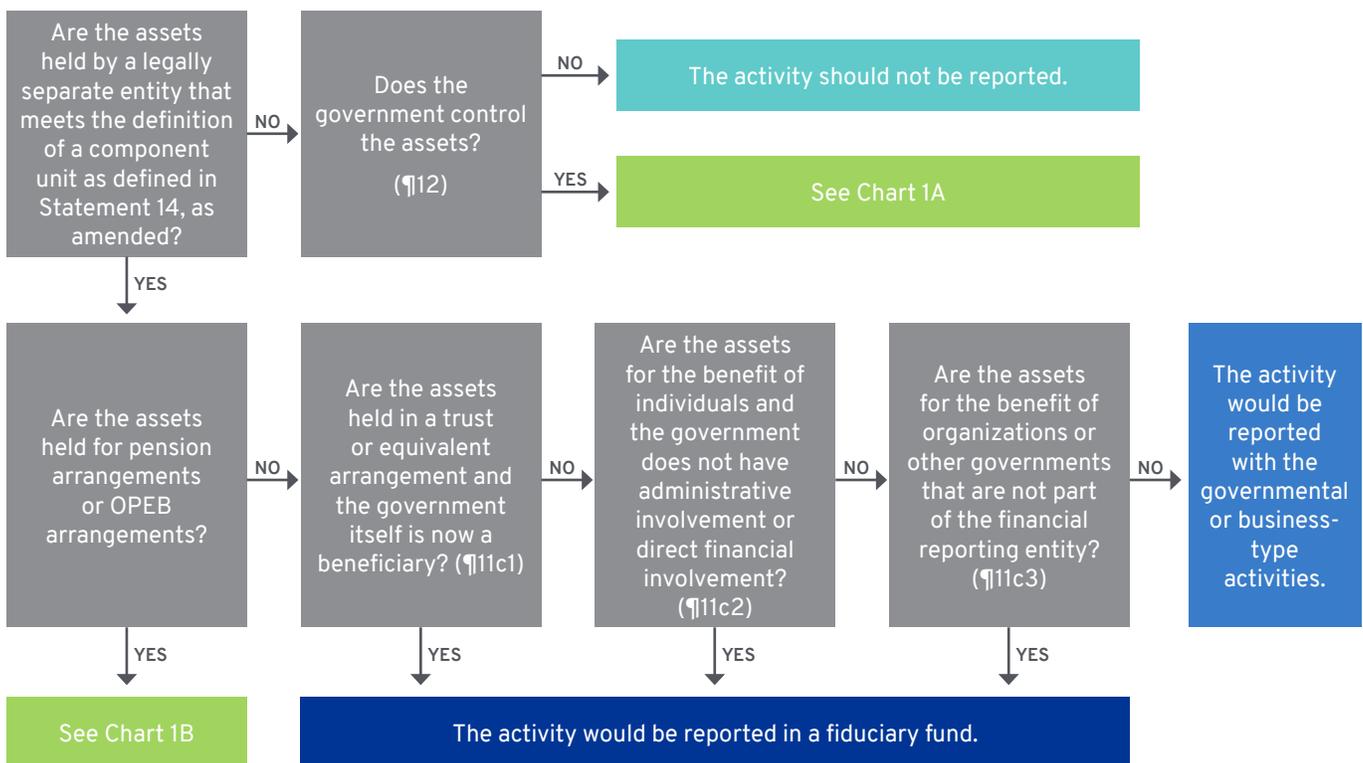
Finally, GASB 97 also requires that investments of all Section 457 plans always be measured as of the end of the plan's reporting period.

**NOT ALL PENSION ACTIVITIES COUNT**

Keep in mind, there are several pension-related activities that often will not meet the definition of fiduciary activities per GASB 84:

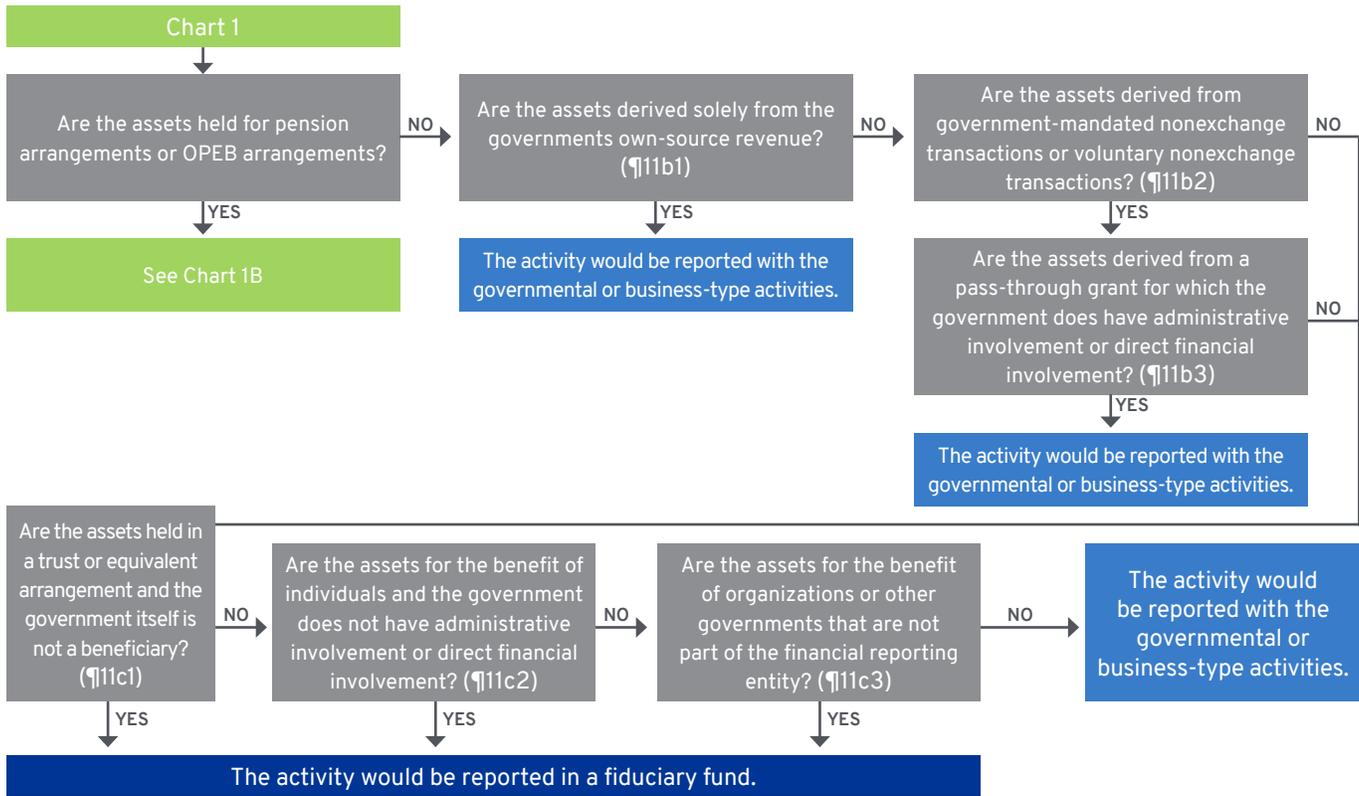
- Cost-sharing pension plans for which the governmental entity is a participating employer
- Most defined contribution pension plans and defined contribution OPEB plans
- Defined benefit plans and defined benefit OPEB plans not administered through a trust
- Certain IRC 457 Plans

Chart 1 - Flowchart for Evaluating and Reporting Potential Fiduciary Activities



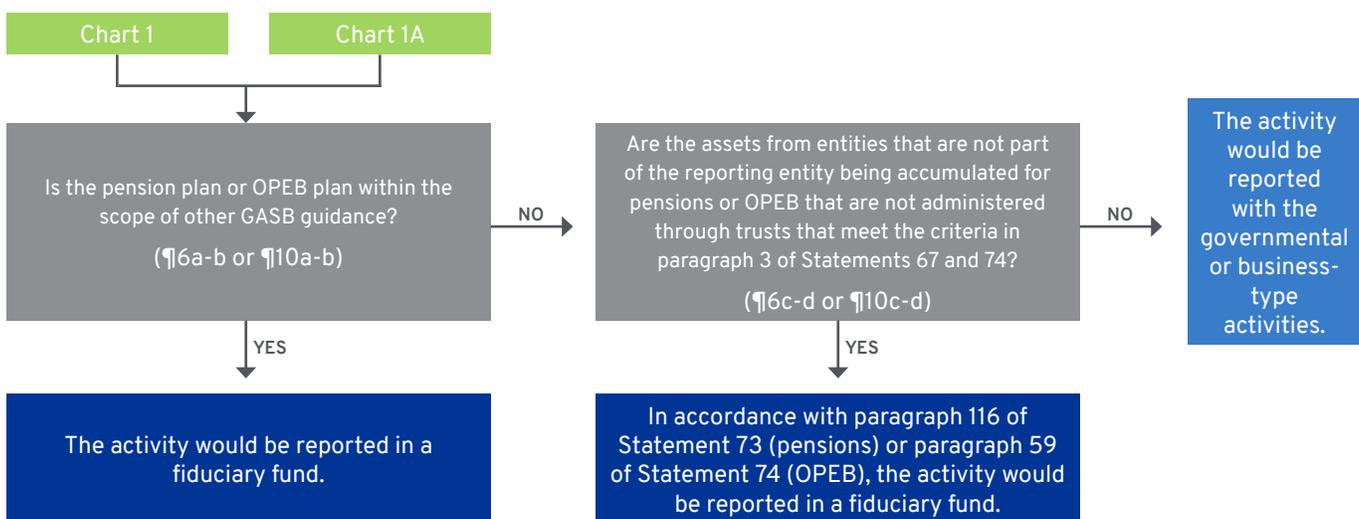
Source: GASB Statement No. 84, Appendix C

Chart 1A - Flowchart for Evaluating and Reporting Potential Fiduciary Activities



Source: GASB Statement No. 84, Appendix C

Chart 1B - Flowchart for Evaluating and Reporting Potential Fiduciary Activities (Postemployment Benefit Arrangements)



Source: GASB Statement No. 84, Appendix C

### WHAT IF MY PENSION PLAN HAS A DIFFERENT YEAR-END THAN THE PRIMARY GOVERNMENT?

If a pension or OPEB plan that is a fiduciary component unit has a different year-end from the primary government, then the plan's year-end that falls within the primary government's fiscal year should generally be reported in the fiduciary fund financial statements.

### DON'T I ALREADY PRESENT THIS INFORMATION AS REQUIRED SUPPLEMENTARY INFORMATION (RSI)?

In accordance with GASB Statements Nos. 68 and 73, governmental entities that sponsor defined benefit pension plans and OPEB plans are already required to present schedules following the basic financial statements in the form of RSI. These RSI schedules include much of the same information that is required to be presented in the fiduciary fund financial statements for such arrangements and may seem duplicative. In many cases, it very well may be duplicative; however, it is still required. However, in many other cases, there will be a timing difference with respect to the periods presented, as the RSI is presented as of the measurement date and for the period then ended, which may be as much as twelve months in arrears of the primary government's fiscal year end. On the other hand, the fiduciary fund financial statements are generally presented as of the primary government's fiscal year-end.

### DOES GASB 97 EXCLUDE ALL DEFINED CONTRIBUTION PLANS FROM POTENTIALLY BEING CONSIDERED FIDUCIARY ACTIVITIES?

No. Although GASB 97 provides relief that will result in most defined contribution pension and OPEB plans not being considered a fiduciary component unit due to a lack of a separate governing board, such defined contribution plans still need to be evaluated to determine whether the governmental reporting entity controls the assets. Given the set-up of many such defined contribution plans, whereby participants direct their own investment choices based on a list of options selected by the employer and offered by the plan, the control criterion would typically not be met and, therefore, would not meet the definition of a fiduciary activity.

### HOW DHG CAN HELP

With DHG, you benefit from the integration of professional assurance, tax and advisory services with a comprehensive understanding of the reporting challenges and complexities of state and local governments.

DHG's service approach is collaborative and will provide you proactive professionals, objective insights and tailored strategic approaches for addressing your specific reporting requirements, including helping you navigate the implementation of GASB 84 to your organization's fiduciary activities.

To learn how we can put our technical knowledge, industry insight and a future-focused approach to work for your organization, please reach out to us at [X](#).

### SOURCES

<sup>1</sup> [https://gasb.org/jsp/GASB/Document\\_C/DocumentPage?cid=1176168786182&acceptedDisclaimer=true](https://gasb.org/jsp/GASB/Document_C/DocumentPage?cid=1176168786182&acceptedDisclaimer=true)

<sup>2</sup> [https://www.gasb.org/jsp/GASB/Document\\_C/DocumentPage?cid=1176174787236&acceptedDisclaimer=true](https://www.gasb.org/jsp/GASB/Document_C/DocumentPage?cid=1176174787236&acceptedDisclaimer=true)

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