



UPDATE ON GASB STATEMENT NO 84 FIDUCIARY ACTIVITIES

*Illinois Community College Chief
Financial Officers Fall 2019
Conference – October 17th, 2019*



Fred Lantz, CPA
Partner-in-Charge
Government Services
1415 W Diehl Road, Suite 400
Naperville, IL 60563
630.566.8557
fred.lantz@sikich.com

GASB S-84 *FIDUCIARY ACTIVITIES*

- **What:** GASB issued Statement 84 to clarify when a government has a fiduciary responsibility and is required to present fiduciary fund financial statements
- **Why:** Existing standards require reporting of fiduciary responsibilities but do not define what they are; use of private-purpose trust funds and agency funds is inconsistent; business-type activities are uncertain about how to report fiduciary activities
- **When:** Effective for fiscal years beginning after December 15, 2018 (FYE December 31, 2019 and thereafter for Community Colleges June 30, 2020). Earlier application is encouraged
- **Implementation Guide:** IG No. 2019-2, *Fiduciary Activities* was issued in June 2019 and is effective for fiscal years beginning after December 15, 2018 (FYE December 31, 2019 and thereafter) to coincide with the implementation of GASB S-84

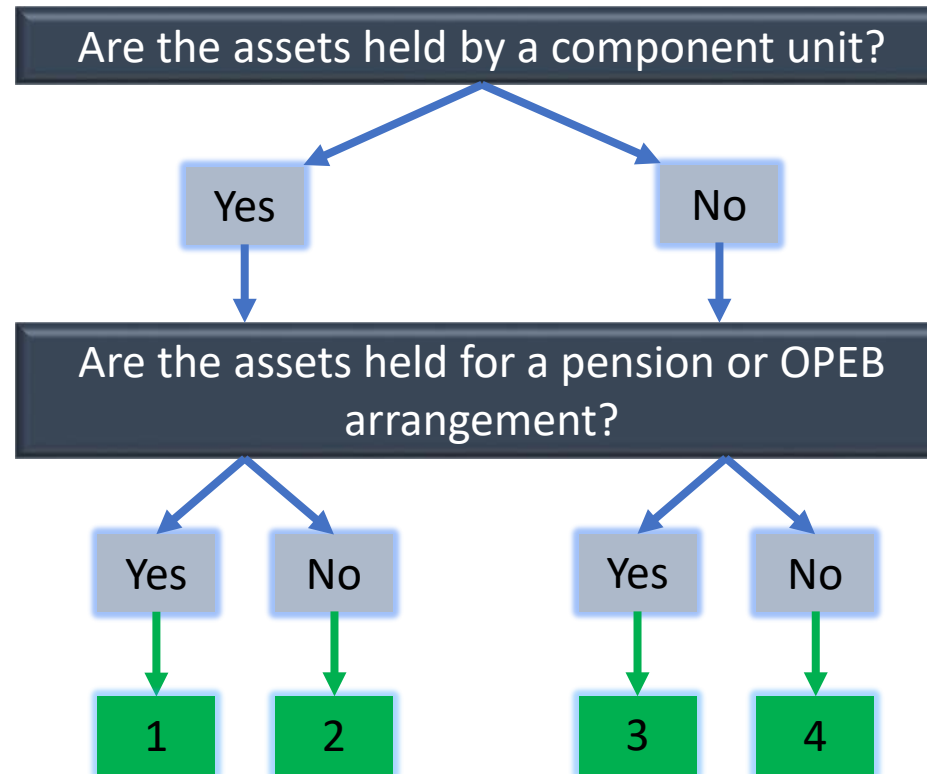
GASB S-84 WHEN SHOULD A GOVERNMENT REPORT ASSETS IN A FIDUCIARY FUND?

Four paths to making this determination:

- Component units that are post-employment benefit arrangements
- Component units that are not post-employment benefit arrangements
- Post-employment benefit arrangements that are not component units
- All other activities

GASB S-84 WHEN SHOULD A GOVERNMENT REPORT ASSETS IN A FIDUCIARY FUND?

Four paths to making this determination:



1

GASB S-84 COMPONENT UNITS THAT ARE POST-EMPLOYMENT BENEFIT ARRANGEMENTS ARE FIDUCIARY IF...

- They are one of the following arrangements:
 - A pension plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 67
 - An OPEB plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 74
 - A circumstance in which assets from entities that are not part of the reporting entity are accumulated for pensions as described in paragraph 116 of Statement 73
 - A circumstance in which assets from entities that are not part of the reporting entity are accumulated for OPEB as described in paragraph 59 of Statement 74.
- If either of the first two bullets are met the component unit would be reported as a pension and other employee benefit trust fund in the primary government's reporting entity

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GASB S-84 OTHER COMPONENT UNITS ARE FIDUCIARY IF...

- They 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.
- If one or more of these are met the component unit would be reported as a fiduciary component unit

GASB S-84 FIDUCIARY COMPONENT UNIT

- GASB Statement No. 14, *The Financial Reporting Entity*, as amended, defines a component unit (CU) as a **legally separate entity** that the primary government (PG) is **financially accountable** for
 - PG appoints voting majority of the CU Board, and
 - PG can impose its will on the CU or provides a financial benefit/burden; **Or**
 - CU is fiscally dependent on the PG and the CU provides a financial benefit/burden on the PG
- GASB S-84 notes that a financial burden exists if the employer is required to contribute to the post-employment benefit arrangement (S-84, paragraph 7)

GASB S-84 FIDUCIARY COMPONENT UNIT

- Board appointment
 - Voting majority, not simple majority
 - What if no board exists?
 - PG Board serving in that capacity
- Imposition of will
 - Significantly influence programs, projects, activities or levels of services provided
 - Remove appointed member at will
 - Modify or approve the budget
 - Modify or approve rates or fees
 - Appoint, hire, reassign or dismiss persons responsible for day to day operations
- If the PG appoints the voting majority of the board and can impose its will on the entity, or a financial benefit/burden exists, then the unit may meet the definition of a component unit and, therefore, a fiduciary component unit

GASB S-84 FIDUCIARY COMPONENT UNIT

- Fiscal dependency or independence
 - Determine budget without another government having authority to approve and modify that budget
 - Levy taxes or set rates or charges without approval by another government
 - Issue bonded debt without approval by another government
- Substantive approvals versus administrative approvals
- A special purpose government must possess all three characteristics to be fiscally independent
- If the PG holds any of these powers and a financial benefit/burden exists then the unit may meet the definition of a component unit and, therefore, a fiduciary component unit

GASB S-84 FIDUCIARY COMPONENT UNIT

- If the PG appoints the voting majority of the board (or serves as the Board) and can impose its will on the entity, or a financial benefit/burden exists, then the unit may meet the definition of a component unit and, therefore, a fiduciary component unit
- Impact for community colleges
 - IRC 457 plans
 - IRC 403b plans
 - Other similar plans
 - Reporting
 - Employer contributions – pension trust fund
 - No employer contributions – private purpose trust

GASB S-84 FIDUCIARY COMPONENT UNIT

- Solution for community colleges
- Design a new board structure
 - College Board of Trustees cannot appoint a voting majority of the Board
 - Appoint CEO, CFO
 - Employees elect members of the Board
 - Retirees elect members of the Board
 - Modify plan document
- For assistance contact:

JOE CONNELL

AIFA, QPFC, CRPS®, RF™

PARTNER, WEALTH MANAGEMENT SERVICES

Sikich LLP

T: 763.445.2632 E: joe.connell@sikich.com

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GASB S-84 POST-EMPLOYMENT BENEFIT 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:
 - A pension plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 67
 - An OPEB plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 74
 - A circumstance in which assets from entities that are not part of the reporting entity are accumulated for pensions as described in paragraph 116 of Statement 73
 - A circumstance in which assets from entities that are not part of the reporting entity are accumulated for OPEB as described in paragraph 59 of Statement 74.

4 GASB S-84 ALL OTHER ACTIVITIES ARE FIDUCIARY IF...

All three of the following are met:

- 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
- One of the criteria on the next slide is met

GASB S-84 ALL OTHER ACTIVITIES (CONTINUED)

- 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.

GASB S-84 WHEN IS A GOVERNMENT CONTROLLING ASSETS?

- A government controls the assets of an activity if:
 - The government *holds* the assets.
 - 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 beneficiaries.

GASB S-84 OWN SOURCE REVENUE

- GASB S-84 IG, 4.36. Q—A university charges each enrolled student an activity fee to fund student programs and activities. The university management evaluates the student proposals for disbursement of the fees and authorizes the disbursement. The university bills the activity fee with the student's tuition each year and deposits the fees received into its central bank account.
- Should the student activity fees collected be considered own-source revenues of the university, as described in paragraph 13 of Statement 84?
- Yes. The university is obligated to provide a product or service for which a fee is charged. The student activity fees collected, therefore, are own-source revenues of the university.

GASB S-84 WHEN DOES A GOVERNMENT HAVE ADMINISTRATIVE INVOLVEMENT OR DIRECT FINANCIAL INVOLVEMENT?

- Examples of 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
 - If it determines eligible expenditures that are established by the government or by a resource provider that does not receive the direct benefits of the activity
 - If it has the ability to exercise discretion in how assets are allocated
- Example of direct financial involvement
 - If it provides matching resources for the activities

GASB S-84 WHEN DOES A GOVERNMENT HAVE ADMINISTRATIVE INVOLVEMENT

- 4.20. Q—A school district holds the funds raised by various student clubs, which are not legally separate from the school district. The funds are used to pay for various club activities during the year. There is no school board or school administration policy related to how the resources of the club can be spent. The disbursements from the aggregated club account are approved by the faculty advisor (who is representing the school district) assigned to each club. Approval, rejection, or modification of the spending is strictly at the discretion of the faculty advisor. Does the school district have administrative involvement, as discussed in paragraph 11c(2) of Statement 84?
- A—Yes. The school district does have administrative involvement. The school district’s role is considered to be substantive because in the absence of an approved policy, the faculty advisor (who is acting in the capacity of a school district representative) has the ability to reject, modify, or approve how the resources are spent. The faculty advisor’s approval is more than just a formality and is analogous to the example provided in footnote 1 of Statement 84 regarding the determination of eligible expenditures that are established by the government.

GASB S-84 *FIDUCIARY ACTIVITIES*

- If any one of these paths is met, the activity meets the definition of a fiduciary activity to be reported in one of the following fiduciary funds
 - Pension (and other employee benefit) trust fund
 - Investment trust fund
 - Private-purpose trust
 - Custodial fund
 - Replaces agency funds

GASB S-84 FIDUCIARY FUNDS

- Private-purpose trust funds are used to report all fiduciary activities that:
 - Are not required to be reported in pension (and other employee benefit) trust funds or investment trust funds and
 - Are held in a trust that meets the specific criteria (dedicated and protected) and can not be used for the governments programs.
- Custodial funds are used to report fiduciary activities that are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private-purpose trust funds.

VILLAGE OF PALATINE, ILLINOIS

STATEMENT OF NET POSITION
FIDUCIARY FUNDS

December 31, 2018

	Pension Trust	Custodial
ASSETS		
Cash and cash equivalents	\$ 2,188,277	\$ 1,262,096
Investments		
U.S. Treasury securities	22,070,392	-
U.S. agency securities	1,270,506	-
Corporate and international bonds	25,097,615	-
Municipal bonds	534,979	-
Money market mutual funds	764,936	-
Equities	89,304,765	-
Receivables		
Property taxes	-	588,231
Accrued interest	357,724	-
Total assets	141,589,194	1,850,327
LIABILITIES		
None	-	-
DEFERRED INFLOWS OF RESOURCES		
Deferred property taxes	-	587,850
NET POSITION		
Restricted for pensions	141,589,194	-
Restricted for debt service	-	1,262,477
Total net position	\$ 141,589,194	\$ 1,262,477

VILLAGE OF PALATINE, ILLINOIS
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS

For the Year Ended December 31, 2018

	Pension Trust	Custodial
ADDITIONS		
Contributions		
Employer	\$ 8,997,533	\$ -
Employee	2,148,249	-
Property owner	-	594,511
Other	50	-
Total contributions	<u>11,145,832</u>	<u>594,511</u>
Investment earnings		
Net increase (decrease) in the fair value of investments	(13,197,286)	-
Interest	4,127,292	19,935
Total investment earnings	(9,069,994)	19,935
Less investment expense	(454,240)	-
Net investment earnings	<u>(9,524,234)</u>	<u>19,935</u>
Total additions	<u>1,621,598</u>	<u>614,446</u>
DEDUCTIONS		
Administration	35,745	-
Benefits and refunds	10,186,020	-
Debt service		
Principal retirement	-	90,000
Interest and fiscal charges	-	501,450
Total deductions	<u>10,221,765</u>	<u>591,450</u>
CHANGE IN NET POSITION	(8,600,167)	22,996
NET POSITION		
January 1 - as restated	<u>150,189,361</u>	<u>1,239,481</u>
December 31	<u>\$ 141,589,194</u>	<u>\$ 1,262,477</u>

GASB S-84 STAND-ALONE BUSINESS-TYPE ACTIVITIES

- A stand alone BTA's fiduciary activities should be reported in separate fiduciary fund financial statements.
- Resources expected to be held 3 months or less can be reported instead in the statement of net position, with inflows and outflows reported as operating cash flows in the statement of cash flows

APPLICATION OF GASB STATEMENT NO 84

- Employer sponsored deferred compensation plan
 - No Board exists, employer Board serves in that capacity
 - Employer hires investment managers to provide investment alternatives to employees
 - Plan assets are held in a trust
 - Employer does not have a requirement to and does not contribute and to the plan
 - Employees/plan members contribute a set % of wages up to a maximum
- Does the deferred compensation plan meet the definition of a fiduciary component unit or a fiduciary activity?
 - Yes –the employer Board serves as the Plan Board and therefore can impose its will on the plan
 - Report as a private purpose trust
- Would the answer change if the employer is required to contribute to the plan?
 - Possibly, see GASB Exposure Draft (ED) *Internal Revenue Code Section 457 Deferred Compensation Plans That Meet the Definition of a Pension Plan and Supersession of GASB Statement 32*

APPLICATION OF GASB STATEMENT NO 84

- **Student Activity Funds**
 - An educational district collects student activity fees on each credit hour as part of tuition and fees
 - These fees are used to support a variety of campus needs and activities. In addition, a certain amount of fees are distributed to the student government to be divided allocated among the student clubs for their use
 - Some clubs generate their own additional revenues through fundraising activities on campus. Other clubs are financing only from the allotted student activity fees
 - The educational district holds the funds in one of its demand deposit accounts
 - Funds are disbursed by the student club upon approval by an academic advisor to the student club
 - The student clubs are not in a trust or trust equivalent arrangement nor are the student clubs component units
- **Do the student activity funds meet the definition of a fiduciary activity**
 - No, the student activity fees are own source revenues to the educational district
 - The district has administrative involvement due to an academic advisor approving disbursements

APPLICATION OF GASB STATEMENT NO 84

- What do we do with Fund 10 ?
 - Maintain fund 10 in the ERP system
 - Report full statement of net position (equity), flows into College's net position
 - Report full statement of changes in net position (revenues, expenses and changes in net position)
 - Consolidate with other subfunds of the College
 - Reclassify activities into education fund (1) or auxiliary enterprise fund (5)
 - What will the ICCB FMM require for reporting in the future?



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