



MGFOA Position Paper

Implementation of GASB 84 Fiduciary Activities

Overview

GASB 84 introduces a new concept to governmental financial statements: *fiduciary activities*. Historically, the GASB had defined *governmental activities*, and *business-type activities*, each of which are separately displayed in the government-wide financial statements. However, there was no similar definition for *fiduciary activities*, as the fiduciary funds are not displayed in the government-wide financial statements, and are only presented in the fund financial statements.

The primary focus of GASB 84 is defining (and limiting) which of the activities that a government undertakes qualify as *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.

Going forward, fiduciary funds will be limited to accounting for fiduciary activities. This means that certain activities that Michigan governments have previously accounted for in their fiduciary funds (especially agency funds) will now need to be accounted for in either governmental or proprietary funds. Conversely, some activities not previously reported at all will now need to be presented in fiduciary funds.

One additional significant change is that “agency funds” are eliminated and replaced by “custodial funds”. Some former agency activities will no longer qualify as fiduciary activities. Those that do will now be reported as “custodial funds” and will report an operating statement that includes inflows (additions) and outflows (deductions).

The standard is effective for fiscal years ending on or after December 31, 2019.

The purpose of this position paper is to walk through several common activities undertaken by Michigan governments, and determine their likely treatment under GASB 84. This guidance is necessarily general in nature, and the specific facts and circumstances of individual governments should be considered before reaching a final conclusion.

Identifying Fiduciary Activities

GASB 84 defines three primary categories of fiduciary activities, each with slightly different criteria:

1. Fiduciary component units (including pensions and OPEB plans in qualifying trusts)
2. Pension and OPEB arrangements that are not component units
3. Other fiduciary activities

Fiduciary component units that should be reported as fiduciary activities include:

1. Pension and OPEB plans that are legally separate component units administered through qualifying trusts or held for other governments
2. Other component units that are either (a) held in a qualifying trust, (b) held for the benefit of individuals (without the government having administrative or direct financial involvement), or (c) held for the benefit of outside organizations not part of the government's reporting entity. For items (2b) and (2c) only, the assets cannot be derived from the government's provision of goods or services to the individuals or outside organizations, respectively.

Pension and OPEB arrangements that are not component units are considered fiduciary activities if the government controls the assets, and they are administered through qualifying trusts, or held for other governments.

All other activities have to meet three separate criteria to qualify as *other fiduciary activities*, as follows:

1. The assets are controlled by (i.e., held by, or able to have their use directed by) the government
2. The assets are not derived from the government's own-source revenue or government-mandated/voluntary non-exchange transactions (strictly pass-through grants with no administrative involvement are excluded)
3. The assets are either (a) held in a qualifying trust, (b) held for the benefit of individuals (without the government having administrative or direct financial involvement), or (c) held for the benefit of outside organizations not part of the government's reporting entity. For items (3b) and (3c) only, the assets cannot be derived from the government's provision of goods or services to the individuals or outside organizations, respectively.

Reporting Fiduciary Activities

Once an activity has been identified as a fiduciary activity, GASB 84 requires it to be reported in a fiduciary fund. (Any activity that does not qualify as a fiduciary activity should be identified as either a governmental activity or business-type activity, and reported in a governmental or proprietary fund.)

The four types of fiduciary funds, and their intended uses are as follows:

1. *Pension (and other employee benefit) trust funds* should be used to report pension and OPEB plans held in qualifying trusts
2. *Investment trust funds* should be used to report for the external portion of investment pools
3. *Private-purpose trusts* should be used to report all other resources held in trust
4. *Custodial funds* should be used to report all other fiduciary activities (i.e., those *not* held in trust); this fund type replaces the former "agency fund" classification

Pension and OPEB trust funds should report their financial statements in accordance with GASB Statements 67 and 74. All other fiduciary activities will present a statement of fiduciary net position (i.e., a balance sheet) and statement of changes in fiduciary net position (i.e., an income statement) as follows:

The *statement of fiduciary net position* should report the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position of the fiduciary fund. However, a liability should only be recognized when an event has occurred that compels the government to disburse fiduciary resources (i.e., when a demand for the resources has been made, or when no further action, approval, or condition is required to be taken to release the assets).

The *statement of changes in fiduciary net position* should report the additions (i.e., inflows) and deductions (i.e., outflows) from fiduciary net position. While this has been the case for the other fiduciary funds, this is a new requirement for custodial funds, which replace the former agency funds. Accordingly, governments will need to capture and report the inflows and outflows of certain fiduciary liabilities in a new manner under GASB 84.

Glossary

Administrative involvement is defined by example, and includes monitoring compliance, determining eligibility, and has the ability to exercise discretion in how funds are allocated

Compels – a government is “compelled” to disburse fiduciary resources when requested by the third-party, or immediately upon receipt when no request is required (e.g., property taxes collected for other governments represent a liability immediately upon collection)

Component unit – a legally separate entity for which the primary government is financially accountable following the guidance of GASB 14, as amended (GASB Cod. Section 2100)

Control – a government controls the assets of an activity if it holds the assets or has the ability to direct their use (even if that ability is outsourced to a third-party)

Direct financial involvement is defined by example, and includes providing matching dollars or being liable for disallowed costs

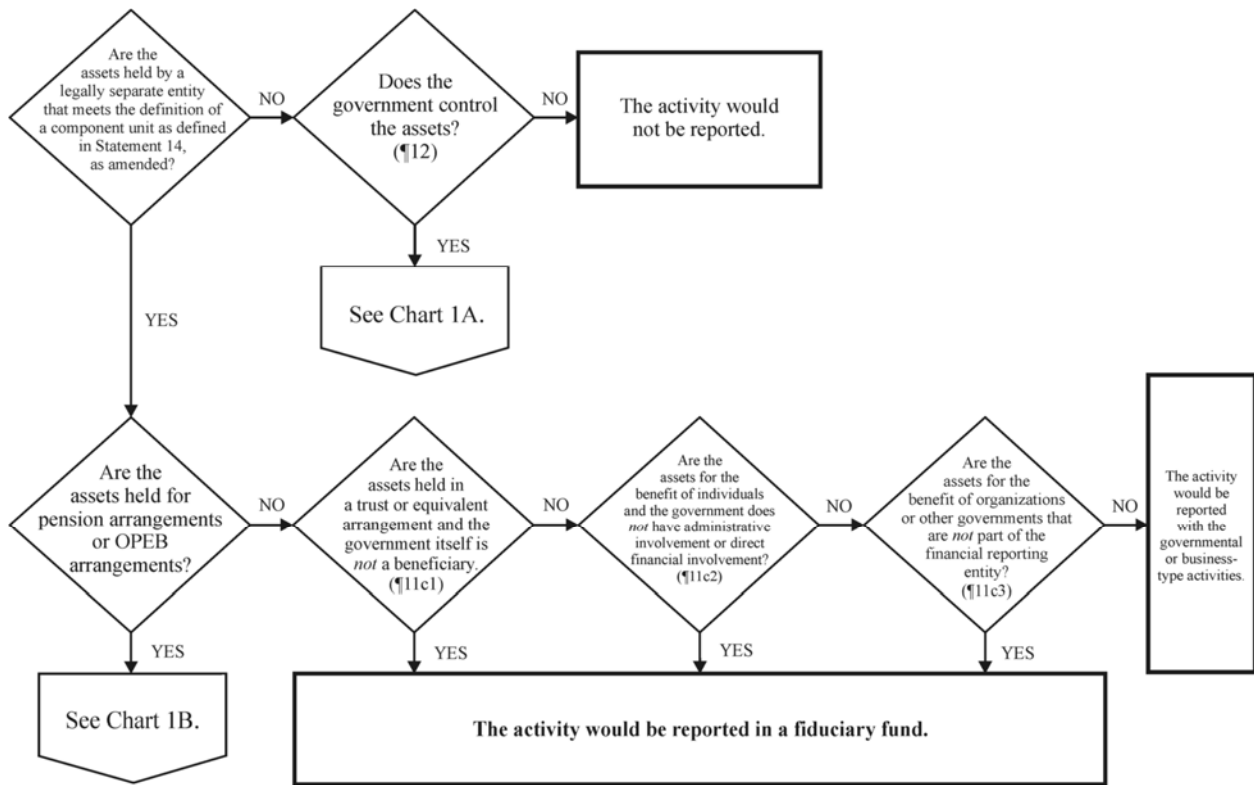
Own-source revenues – revenues that are generated by a government itself (such as taxes, charges for services, and investment earnings)

Qualifying trust – a trust or equivalent arrangement in which: (1) contributions and earnings thereon are irrevocable; (2) trust assets are dedicated to providing benefits to recipients (other than the government itself); and (3) assets are legally protected from creditors of the government

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GASB's Flowcharts

GASB 84 includes a series of flowcharts to walk users through the process of determining whether a given activity constitutes a *fiduciary activity*. On the following pages, this position paper applies a series of common activities undertaken by Michigan governments to these flowcharts, and documents the results that are likely to be correct in most circumstances.

Chart 1—Flowchart for Evaluating and Reporting Potential Fiduciary Activities



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GASB's Flowcharts

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

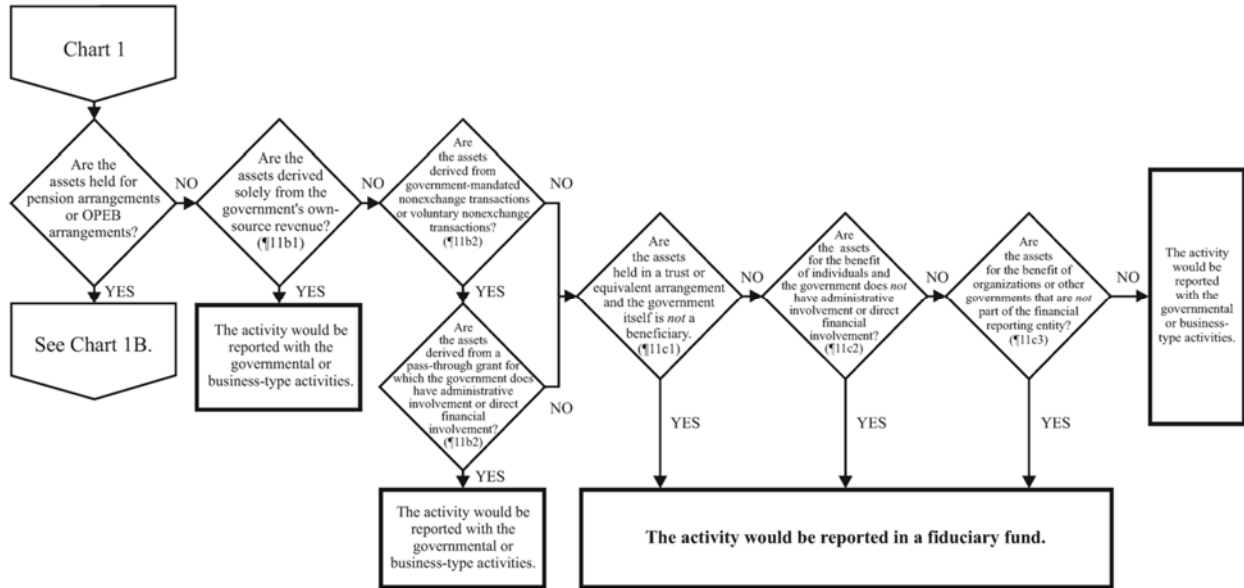
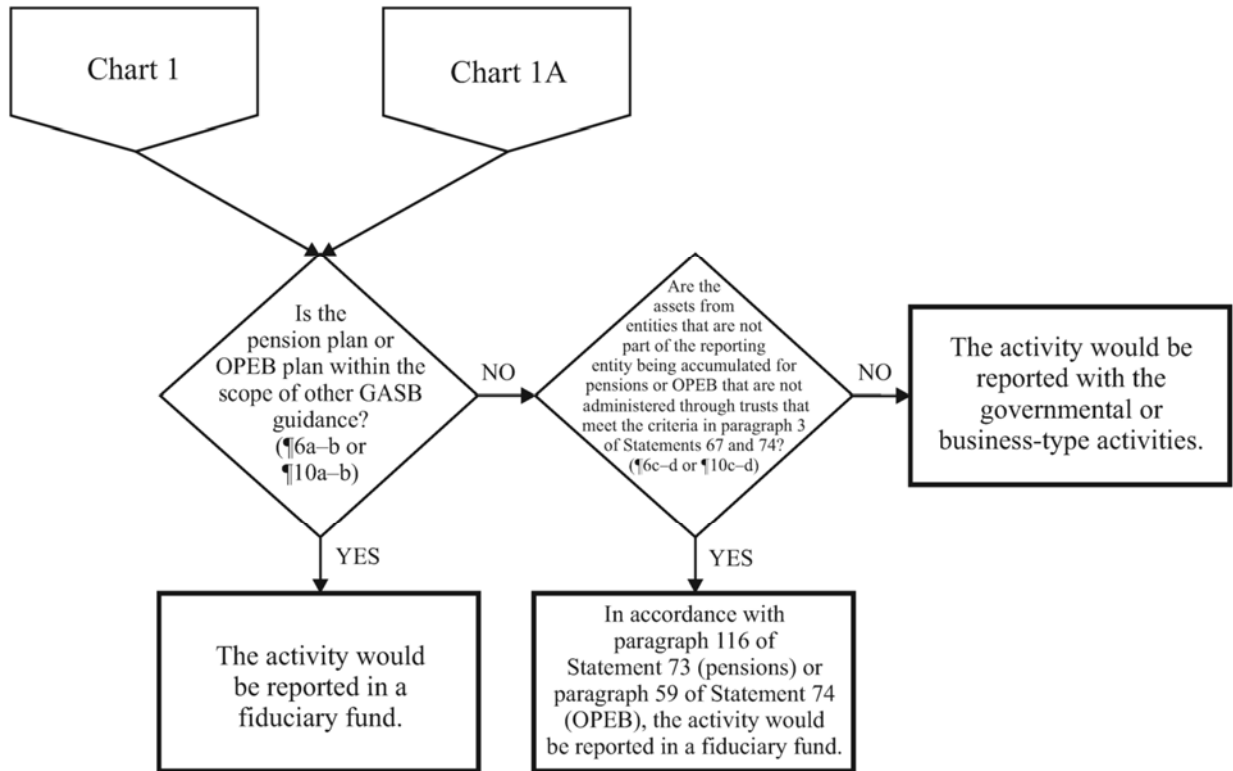


Chart 1B—Flowchart for Evaluating and Reporting Potential Fiduciary Activities (Postemployment Benefit Arrangements)



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Evaluation of Specific Activities

Collection of Property Taxes

Includes the government's own levies, and collecting property taxes levied by other governments (e.g., schools, county, state)

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| 1. Are the assets held by a legally separate entity that meets the definition of a component unit as defined in Statement 14, as amended? | No |
| 2. Does the government control the assets? | Yes |
| 3. Are the assets held for pension arrangements or OPEB arrangements? | No |
| 4. Are the assets derived solely from the government's own-source revenues? | No |
| 5. Are the assets derived from government-mandated nonexchange transactions or voluntary nonexchange transactions? | No; these are imposed nonexchange transactions |
| 6. Are the assets held in a trust or equivalent arrangement and the government itself is <i>not</i> a beneficiary? | No |
| 7. Are the assets for the benefit of individuals and the government does <i>not</i> have administrative involvement or direct financial involvement? | No |
| 8. Are the assets for the benefit of organizations or other governments that are <i>not</i> part of the financial reporting entity? | Yes (for taxes levied by other governments) |

Conclusion: *the collection of taxes levied by and collected on behalf of other governments would be reported in a fiduciary fund (the government's own levies should be reported directly in the appropriate governmental fund)* Custodial Fund (Fund 703)

Notes: only taxes collected for other entities should be reported in the Current Tax Collection Fund 703; activity related to the government's own levies will have to be excluded or netted out for year end reporting

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Evaluation of Specific Activities

Site Plan Approval Fees

Example: a taxpayer applies to the planning commission for approval to construct a new building, and the government charges a fee that will go to an engineering firm selected by the government to supply the site plan services.

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|---|----------------------------------|
| 1. Are the assets held by a legally separate entity that meets the definition of a component unit as defined in Statement 14, as amended? | No |
| 2. Does the government control the assets? | Yes |
| 3. Are the assets held for pension arrangements or OPEB arrangements? | No |
| 4. Are the assets derived solely from the government's own-source revenues? | Yes |
| Conclusion: <i>not a fiduciary activity</i> | Governmental or proprietary fund |

Notes: Since the government sets the fee, and procures the engineering service to be provided, this represents revenue and expense/expenditures of the government. This activity should be considered when adopting the budget.

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Performance Deposit

Example: when a taxpayer obtains approval from the planning commission, they are required to place a deposit equal to 1% of the proposed value of the new building. This money is held in an escrow account that will be returned after the Certificate of Occupancy is issued and the building inspector has indicated that all cleanup has occurred.

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|--|----------------------------------|
| 1. Are the assets held by a legally separate entity that meets the definition of a component unit as defined in Statement 14, as amended? | No |
| 2. Does the government control the assets? | Yes |
| 3. Are the assets held for pension arrangements or OPEB arrangements? | No |
| 4. Are the assets derived solely from the government's own-source revenues? | No |
| 5. Are the assets derived from government-mandated nonexchange transactions or voluntary nonexchange transactions? | No |
| 6. Are the assets held in a trust or equivalent arrangement and the government itself is <i>not</i> a beneficiary? | No |
| 7. Are the assets for the benefit of individuals and the government does <i>not</i> have administrative involvement or direct financial involvement? | No |
| 8. Are the assets for the benefit of organizations or other governments that are <i>not</i> part of the financial reporting entity? | No |
| Conclusion: <i>not a fiduciary activity</i> | Governmental or proprietary fund |

Notes: *while not a fiduciary activity, this is still a liability (unless the taxpayer fails to perform the cleanup, and the government takes action to retain the deposit and incur the cleanup costs directly). Accordingly, this activity typically is not a revenue or expense/expenditure, and does not have to be budgeted. Instead, it should be accounted for as cash and a liability in the fund used for such activity (typically the Building Department Fund 249 or 549).*

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Evaluation of Specific Activities

Payroll Clearing Fund

Example: a government runs all of its payroll and fringe benefits through a separate fund, and then allocates those costs to the different funds based on where the individuals worked. Historically, many governments have reported this as an agency fund.

1. Are the assets held by a legally separate entity that meets the definition of a component unit as defined in Statement 14, as amended? No
2. Does the government control the assets? Yes
3. Are the assets held for pension arrangements or OPEB arrangements? No
4. Are the assets derived solely from the government's own-source revenues? No
5. Are the assets derived from government-mandated nonexchange transactions or voluntary nonexchange transactions? No
6. Are the assets held in a trust or equivalent arrangement and the government itself is *not* a beneficiary? No
7. Are the assets for the benefit of individuals and the government does *not* have administrative involvement or direct financial involvement? No
8. Are the assets for the benefit of organizations or other governments that are *not* part of the financial reporting entity? No

Conclusion: *not a fiduciary activity*

General fund

Notes: *this activity can continue to be accounted for in a separate fund number, but that fund should be reported externally as if it were part of the general fund. As a practical matter, very little residual activity (if any) should remain at year end, as amounts are expected to be cleared out for each pay date.*

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Payroll Deductions Fund

Example: a government uses a central payroll system and reports all payroll deductions in a single fund.

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| 1. Are the assets held by a legally separate entity that meets the definition of a component unit as defined in Statement 14, as amended? | No |
| 2. Does the government control the assets? | Yes |
| 3. Are the assets held for pension arrangements or OPEB arrangements? | No |
| 4. Are the assets derived solely from the government's own-source revenues? | No |
| 5. Are the assets derived from government-mandated nonexchange transactions or voluntary nonexchange transactions? | No |
| 6. Are the assets held in a trust or equivalent arrangement and the government itself is <i>not</i> a beneficiary? | No |
| 7. Are the assets for the benefit of individuals and the government does <i>not</i> have administrative involvement or direct financial involvement? | No |
| 8. Are the assets for the benefit of organizations or other governments that are <i>not</i> part of the financial reporting entity? | No * |
| Conclusion: <i>not a fiduciary activity</i> | General fund |

Notes: *this situation is specifically addressed by the GASB's implementation guidance, which indicates that when the deductions are withheld from an employee's pay, the amounts withheld and accrued by the employer become a liability of the government; as a result, the government is holding the amounts for its own benefit*

NOTE: This answer was revised based on the issuance of Implementation Guide 2019-2.

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MERS Pension

Example: a government offers pension benefits to its employees through MERS

1. Are the assets held by a legally separate entity that meets the definition of a component unit as defined in Statement 14, as amended? No
2. Does the government control the assets? No

Conclusion: *not a fiduciary activity*

The activity is not reported by the government

Notes: *since the government does not control the assets, this is not a fiduciary activity of the government. However, all other pension-related accounting and financial reporting (as required by GASB 68) would still apply.*

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Single-Employer Defined Benefit Pension Plan (with voting majority)

Example: a government sponsors a single-employer defined benefit pension plan with a seven-member board: the finance director and city manager are de facto members; the mayor appoints two members; the union appoints two members; and the retirees appoint one.

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|---|-----|
| 1. Are the assets held by a legally separate entity that meets the definition of a component unit as defined in Statement 14, as amended? | Yes |
| 2. Are the assets held for pension arrangements or OPEB arrangements? | Yes |
| 3. Is the pension plan or OPEB plan within the scope of other GASB guidance (i.e., GASB 67, 73, or 74)? | Yes |

Conclusion: *fiduciary activity*

Pension trust fund
(Fund 731)

Notes: *the plan is a component unit because the government appoints a voting majority of the board, and has a financial burden (through making pension contributions); the activity should be reported in accordance with GASB 67 as a pension trust fund*

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Single-Employer Defined Benefit Pension Plan (without voting majority)

Example: a government sponsors a single-employer defined benefit pension plan with a seven-member board: the finance director and city manager are de facto members; the mayor appoints one member; the union appoints two members; and the retirees appoint two.

- | | |
|---|--|
| 1. Are the assets held by a legally separate entity that meets the definition of a component unit as defined in Statement 14, as amended? | No |
| 2. Does the government control the assets?
Conclusion: <i>not a fiduciary activity</i> | No
The activity is not reported by the government |

Notes: *the plan is not a component unit because the government does not appoint a voting majority of the board. Since the government does not control the assets, this is not a fiduciary activity of the government. However, all other pension-related accounting and financial reporting (as required by GASB 68) would still apply.*

Some governments may have historically accounted for these plans as pension trust funds included in the government's financial statement, and not produced separately issued financial statements. In those cases, the plans may need to arrange for their own stand-alone audits for the first time.

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MERS Retiree Health Funding Vehicle

Example: the government has invested OPEB assets in the MERS Retiree Health Funding Vehicle. This vehicle allows the government to select the investment risk profile, while gaining the benefit of MERS' investment function. Any payments out of the RHFV are directed by the employer, only by supplying relevant evidence of the amount of retiree health costs incurred.

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|---|-----|
| 1. Are the assets held by a legally separate entity that meets the definition of a component unit as defined in Statement 14, as amended? | No |
| 2. Does the government control the assets? | Yes |
| 3. Are the assets held for pension arrangements or OPEB arrangements? | Yes |
| 4. Is the pension plan or OPEB plan within the scope of other GASB guidance (i.e., GASB 67, 73, or 74)? | Yes |

Conclusion: *fiduciary activity*

OPEB trust fund
(Fund 737)

Notes: *the government "controls" the assets in the RHFV by selecting the investment risk profile and directing the use of the assets. Governments that had previously elected not to present an OPEB trust fund for the RHFV will need to begin reporting one prospectively with the adoption of GASB 84.*

For purposes of complying with GASB 74, the OPEB plan will need to establish a measurement date, which will serve as the OPEB trust fund's fiscal year end (and may or may not match the government's fiscal year end).

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MERS Investment Services Program

Example: the government has invested assets in the MERS Investment Services Program, for assets allowed to be invested in accordance with Michigan's PA 314 (the Pension Act). Any payments out of the ISP are directed by the government.

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| 1. Are the assets held by a legally separate entity that meets the definition of a component unit as defined in Statement 14, as amended? | No |
| 2. Does the government control the assets? | Yes |
| 3. Are the assets held for pension arrangements or OPEB arrangements? | No * |
| 4. Are the assets derived solely from the government's own-source revenues? | No |
| 5. Are the assets derived from government-mandated nonexchange transactions or voluntary nonexchange transactions? | No |
| 6. Are the assets held in a trust or equivalent arrangement and the government itself is <i>not</i> a beneficiary? | No |
| 7. Are the assets for the benefit of individuals and the government does <i>not</i> have administrative involvement or direct financial involvement? | No |
| 8. Are the assets for the benefit of organizations or other governments that are <i>not</i> part of the financial reporting entity? | No |
| Conclusion: <i>not a fiduciary activity</i> | Accounted for as an investment of the participating fund(s) |

Notes: *the government "controls" the assets in the ISP by selecting the investment risk profile and directing the use of the assets. The government's participation in the ISP is not a fiduciary activity, but rather an investment that should be accounted for by the participating fund(s). While one of those "participating funds" may be a pension trust fund, the ISP is not itself held for pension arrangements.*

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District Court Fees and Fines remitted to other governments

Example: a District Court assesses fees and fines that are then remitted to other units of government

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|--|---|
| 1. Are the assets held by a legally separate entity that meets the definition of a component unit as defined in Statement 14, as amended? | No |
| 2. Does the government control the assets? | Yes |
| 3. Are the assets held for pension arrangements or OPEB arrangements? | No |
| 4. Are the assets derived solely from the government's own-source revenues? | No |
| 5. Are the assets derived from government-mandated nonexchange transactions or voluntary nonexchange transactions? | No; these are imposed non-exchange transactions |
| 6. Are the assets held in a trust or equivalent arrangement and the government itself is <i>not</i> a beneficiary? | No |
| 7. Are the assets for the benefit of individuals and the government does <i>not</i> have administrative involvement or direct financial involvement? | No |
| 8. Are the assets for the benefit of organizations or other governments that are <i>not</i> part of the financial reporting entity? | Yes |

Conclusion: *fiduciary activity*

Custodial fund
(fund 710)

Notes: *while the exact legal status of District Courts remains unclear (a hybrid of state government with local fiscal responsibility), from the perspective of the District Court itself, this activity is not a component unit. Because the amounts are held for other governments (rather than individuals), administrative involvement is not a consideration.*

Because this activity is reported in a custodial fund, collections of fees and fines should be accounted for as an increase to cash with a recognition of fines inflow account (reported as an "addition" in the financial statements) along with a corresponding outflow (reported as a "deduction" in the financial statements) and an offsetting liability (due to other governments).

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Evaluation of Specific Activities

District Court Bail Bonds

Example: a District Court sets and collects bail bonds that it holds and returns to the defendant if he/she appears when required

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|--|-----|
| 1. Are the assets held by a legally separate entity that meets the definition of a component unit as defined in Statement 14, as amended? | No |
| 2. Does the government control the assets? | Yes |
| 3. Are the assets held for pension arrangements or OPEB arrangements? | No |
| 4. Are the assets derived solely from the government's own-source revenues? | No |
| 5. Are the assets derived from government-mandated nonexchange transactions or voluntary nonexchange transactions? | No |
| 6. Are the assets held in a trust or equivalent arrangement and the government itself is <i>not</i> a beneficiary? | No |
| 7. Are the assets for the benefit of individuals and the government does <i>not</i> have administrative involvement or direct financial involvement? | No |
| 8. Are the assets for the benefit of organizations or other governments that are <i>not</i> part of the financial reporting entity? | No |

Conclusion: *not a fiduciary activity*

General fund of
the District Court

Notes: *while the exact legal status of District Courts remains unclear (a hybrid of state government with local fiscal responsibility), from the perspective of the District Court itself, this activity is not a component unit.*

Because District Court does have administrative involvement through the setting of bail, and determination of whether or not the conditions were met to return it. While not a fiduciary activity, this is still a liability that should be reported within the District Court's general fund. No revenue or expenditures would be reported, unless the bail is forfeited and retained by the Court.

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District Court Restitution

Example: a District Court requires a defendant to pay the Court restitution that it then turns over to aggrieved parties.

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|---|------------------------------------|
| 1. Are the assets held by a legally separate entity that meets the definition of a component unit as defined in Statement 14, as amended? | No |
| 2. Does the government control the assets? | Yes |
| 3. Are the assets held for pension arrangements or OPEB arrangements? | No |
| 4. Are the assets derived solely from the government's own-source revenues? | Yes |
| Conclusion: <i>not a fiduciary activity</i> | General fund of the District Court |

Notes: *while the exact legal status of District Courts remains unclear (a hybrid of state government with local fiscal responsibility), from the perspective of the District Court itself, this activity is not a component unit.*

Restitution is an imposed non-exchange transaction, and should be reported as revenue when collected and as an expenditure when remitted to the beneficiary.