IMPLEMENTATION
OF
GASB STATEMENT NO. 84,
FIDUCIARY ACTIVITIES

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A CCMA WHITE PAPER
FOR
CALIFORNIA
LOCAL GOVERNMENTS

ISSUED MARCH 31, 2020

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A CCMA White Paper for California Local Governments
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INTRODUCTION

Scope and Limitations: This California Committee on Municipal Accounting (CCMA) White Paper summarizes and does not contain all of the information contained in Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities* (the Statement) or the associated Implementation Guide No 2019-2, Fiduciary Activities. Readers should look to the full text of the GASB Statement and associated Implementation Guide to fully understand the details of their responsibilities. Local governments and their auditors must apply their own professional judgment to determine if information in this CCMA White Paper is applicable to their facts and circumstances and must ultimately draw their own conclusions as to the proper implementation of the Statement.

Disclaimer: This CCMA White Paper is not authoritative guidance. The views expressed in this White Paper are not official positions of the GASB, the AICPA, the CalCPA or the League of California Cities. Official positions of the GASB and the American Intuition of Certified Public Accountants (AICPA) are reached only after extensive due process and deliberations. Professional judgment is required.

Introduction to this White Paper: The purpose of this CCMA White Paper is to clarify and interpret for California state and local governments **GASB Statement No. 84.** This Statement requires California state and local governments to account and report all assets and liabilities that may or may not be under direct control by those government agencies including those funds sent or transferred to outside organizations, such as CALPERS, CALSTRS, PARS, and others. California government agencies need to account and report for these and other fiduciary activities in the financial records and financial statements. Under the provisions of the Statement, these transactions may be accounted for in the government agencies' fiduciary funds. It is very important that funds that may or may not be held by the government agencies be appropriately accounted for and reported by these government agencies. See the White Paper recommendations below.

OVERVIEW OF GASB STATEMENT NO. 84

In January 2017, GASB issued the Statement, which establishes criteria for identifying and reporting fiduciary activities for all state and local governments. This statement is effective for fiscal years beginning after December 15, 2018 (i.e., For the year ended June 30, 2020 for June 30 year-end entities, and for the year ended December 31, 2019 for December 31 year-end entities).

The objective of this Statement is to enhance the consistency and comparability of fiduciary activity reporting by state and local governments. It is also intended to improve the usefulness of the fiduciary activity information.

Under the current standards as stated in GASB Statement No. 14 and National Council on Governmental Accounting (NCGA) Statement No. 1, the guidance in those standards did not sufficiently outline the characteristics that should be considered in determining whether an activity is a fiduciary activity, which led to different interpretations by each individual government. GASB Statement No. 84 was developed to provide consistency and comparability across all governmental units by establishing specific criteria to identify and report fiduciary activities.

This Statement could have a considerable impact on certain governments. Activities that were previously reported as fiduciary may no longer fit the definitions in this new Statement. Conversely, activities that were previously governmental, proprietary, or not in the financial statements at all could now meet the definition of a fiduciary activity and certain activities previously reported as fiduciary activities may be reported as governmental activities or no longer be reported in the financial statements.

Scope and Applicability

- This Statement establishes standards of accounting and financial reporting for fiduciary activities.
- This Statement applies to the financial statements of all state and local governments.
- An activity meeting the fiduciary criteria should be reported in a fiduciary fund in the basic financial statements.
- Governments with activities meeting the fiduciary criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.
- This Statement describes four fiduciary funds that should be reported, if applicable:
  1) Pension (and other employee benefit) trust funds
  2) Investment trust funds
  3) Private-purpose trust funds
  4) Custodial funds.
     - Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement.

Identifying Fiduciary Activities

- A primary government or its component units may be engaged in fiduciary activities.

Fiduciary Component Units

- An organization that meets the component unit criteria in GASB Statement 14, as amended, (GASB COD §2100) is a fiduciary activity if it is one of the following arrangements:

  1) A pension plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 67
  2) Another postemployment benefit (OPEB) plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 74
  3) A circumstance in which assets from entities that are not part of the reporting entity are accumulated for defined benefit pensions as described in paragraph 116 of Statement 73
  4) A circumstance in which assets from entities that are not part of the reporting entity are accumulated for defined benefit OPEB as described in paragraph 59 of Statement 74

- Generally, pension and OPEB plans that are administered through trusts are legally separate entities.

- In determining whether those legally separate entities are component units, a primary government is considered to have a financial burden if it is legally obligated or has otherwise assumed the obligation to make contributions to the defined benefit pension plan or defined benefit OPEB plan.

- Some organizations are included as component units because of their fiscal dependency on the primary government. An organization is fiscally dependent on the primary government because the primary government:
  - Approves the organization’s budget;
  - Approves the organization’s levy, rates or other charges; or
  - Approves the organization’s issuance of bonded debt

OTHER CRITERIA FOR IDENTIFYING COMPONENT UNITS

GASB Statement No. 14, as amended, (GASB COD §2100) The Financial Reporting Entity (in part)

- Regardless of entity considerations, a primary government should report its fiduciary funds.
- Organizations should be reported as a fiduciary fund of the primary government if the primary government has a fiduciary responsibility for the organization.

Definition of Component Units

- Component units are legally separate organizations for which the elected officials of the primary government are financially accountable.
- Component units can be other organizations for which the nature and significance of the relationship with a primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Financial Accountability

- Accountability flows from the notion that individuals are obliged to account for their acts, including the acts of the officials they appoint to operate governmental agencies. Elected officials are accountable for an organization if they appoint a voting majority of the organization's governing board.
- The following circumstances set forth a primary government's financial accountability for a legally separate organization:
    1) The primary government is financially accountable if it appoints a voting majority of the organization's governing body, and (a) it is able to impose its will on that organization or (b) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.
    2) The primary government is financially accountable if an organization is fiscally dependent on the primary government and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government, regardless of whether the organization has (a) a separately elected governing board, (b) a governing board appointed by a higher level of government, or (c) a jointly appointed board.

Imposition of Will

- A primary government that is accountable for an organization because it appoints a voting majority of that organization's governing body frequently has the ability to affect that organization's operations.
- A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, activities, or level of services performed or provided by the organization. The existence of any one of the following conditions clearly indicates that a primary government has the ability to impose its will on an organization:
    1) The ability to remove appointed members of the organization's governing board at will.
    2) The ability to modify or approve the budget of the organization.
    3) The ability to modify or approve rate or fee changes affecting revenues, such as water usage rate increases.
    4) The ability to veto, overrule, or modify the decisions of the organization's governing body.
    5) The ability to appoint, hire, reassign, or dismiss those persons responsible for the day-to-day operations of the organization.

OTHER CRITERIA FOR IDENTIFYING COMPONENT UNITS (CONTINUED)

Financial Benefit To or Burden On a Primary Government

- An organization can provide a financial benefit to, or impose a financial burden on, a primary government in a variety of ways.
- An organization has a financial benefit or burden relationship with the primary government if any one of these conditions exists:
    1) The primary government is legally entitled to or can otherwise access the organization's resources.
    2) The primary government is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization.
    3) The primary government is obligated in some manner for the debt of the organization.
- Generally, pension and OPEB plans that are administered through trusts are legally separate entities. In determining whether those legally separate entities are component units, a primary government is considered to have a financial burden if it is legally obligated or has otherwise assumed the obligation to make contributions to the defined benefit pension plan or defined benefit OPEB plan.

Reporting Component Units

- Financial statements of the reporting entity should provide an overview of the entity based on financial accountability, yet allow users to distinguish between the primary government and its component units.

Statement Nos. 67 and 74 (GASB COD §P50 & P51), Pension Plans and OPEB Plans

- These Statements establish financial reporting standards for state and local governmental Pension and OPEB plans that are administered through trusts or equivalent arrangements in which:
    1) Contributions from employers and nonemployer contributing entities to the plan and earnings on those contributions are irrevocable.
    2) Plan assets are dedicated to providing Pension and OPEB to plan members in accordance with the benefit terms.
    3) Plan assets are legally protected from the creditors of employers, nonemployers contributions entities, and the plan administrator. If the plan is a defined benefit plan, plan assets also are legally protected from creditors of the plan members.

Identifying Fiduciary Activities

- A component unit, that is not a pension or OPEB arrangement, is a fiduciary activity if the assets associated with the activity have one or more of the following characteristics:
    1) The assets are (a) administered through a trust agreement or equivalent arrangement 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.
    2) 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.

OTHER CRITERIA FOR IDENTIFYING COMPONENT UNITS (CONTINUED)

Identifying Fiduciary Activities (Continued)

3) 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.

- In determining whether a component unit is a fiduciary component unit, control of the assets of the component unit by the primary government (as discussed below) is not a factor to be considered.

Pension and OPEB Arrangements That Are Not Component Units

- If certain Pension or OPEB arrangements are not component units, the following Pension and OPEB arrangements are fiduciary activities if the government controls the assets of the arrangement:
  1) A Pension Plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 67
  2) An OPEB Plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 74
  3) A circumstance in which assets from entities that are not part of the reporting entity are accumulated for defined benefit pensions as described in paragraph 116 of Statement 73
  4) A circumstance in which assets from entities that are not part of the reporting entity are accumulated for defined benefit OPEB as described in paragraph 59 in Statement 74

Other Fiduciary Activities

- For activities not addressed above, the activity is a fiduciary activity if all of the following criteria are met:
  1) The assets associated with the activity are controlled by the government
  2) The assets associated with the activity are not derived either:
     a) Solely from the government's own-source revenues
     b) 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.
  3) The assets associated with the activity have one or more of the following characteristics:
     a) 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.
     b) 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.
     c) 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.

OTHER CRITERIA FOR IDENTIFYING COMPONENT UNITS (CONTINUED)

Control of Assets

- 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.

Own-Source Revenues

- Own-source revenues are revenues that are generated by a government itself. These 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.

REPORTING FIDUCIARY ACTIVITIES IN FIDUCIARY FUNDS

- Governments should report fiduciary activities in the fiduciary fund financial statements of the basic financial statements. The fiduciary fund used to report the activities should be based on the requirements set forth below:

  - *Pension (and other employee benefit) trust funds* are used to report fiduciary activities for the following:
    a) Pension plans and OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively.
    b) Other employee benefit plans for which (1) resources are held in a trust and (2) contributions to the trust and earnings on those contributions are irrevocable.
  - *Investment trust funds* are used to report fiduciary activities from the external portion of investment pools and individual investment accounts that are held in a trust that meets the criteria of paragraph 11c(1).
  - *Private-purpose trust funds* are used to report all fiduciary activities that (a) are not required to be reported in pension (and other employee benefit) trust funds or investment trust funds and (b) are held in a trust that meets the criteria of paragraph 11c(1).
  - *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.

- Business-type activities, including enterprise funds, may report assets with a corresponding liability that otherwise should be reported in a custodial fund in the statement of net position of the business-type activity if those assets, upon receipt, are normally expected to be held for three months or less. A business-type activity that chooses to report such assets and liabilities in its statement of net position should separately report additions and deductions, if significant, as cash inflows and cash outflows, respectively, in the operating activities category of its statement of cash flows.

REPORTING FIDUCIARY ACTIVITIES IN FIDUCIARY FUNDS (CONTINUED)

Statement of Fiduciary Net Position

- The statement of fiduciary net position should be used to report the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position of pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and custodial funds.
- A liability to the beneficiaries of a fiduciary activity should be recognized in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources.
- A government that reports a pension plan or an OPEB Plan in (or other employee benefit) trust fund should report the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position in accordance with Statement 67 or Statement 74, as applicable.

Statement of Changes in Fiduciary Net Position

- The statement of changes in fiduciary net position should be used to report additions to and deductions from pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and custodial funds. The statement of changes in fiduciary net position should disaggregate additions by source including separate display of:
    1) Investment earnings
    2) Investment costs (including investment management fees, custodial fees, and all other significant investment-related costs
    3) Net investment earnings (investment earnings minus investment costs).
    Investment-related costs should be reported as investment costs if they are separable from (a) investment earnings and (b) administrative costs. The statement of changes in fiduciary net position should disaggregate deductions by type and should separately display administrative costs.
- A government may report a single aggregated total for additions and a single aggregated total for deductions of custodial funds in which resources, upon receipt, are normally expected to be held for three months or less. The descriptions of the aggregated totals of additions and deductions should indicate the nature of the resource flows.
- A government that reports a pension plan or OPEB plan in a (or other employee benefit) trust fund should report the changes in the plan's fiduciary net position in accordance with Statement 67 or Statement 74, as applicable.

Reporting Fiduciary Component Units

- When reported in the fiduciary fund financial statements of a primary government, a fiduciary component unit should include the combined information of its own component units that are fiduciary component units. That combined information should be aggregated with the primary government's fiduciary funds.

EFFECTIVE DATE AND TRANSITION

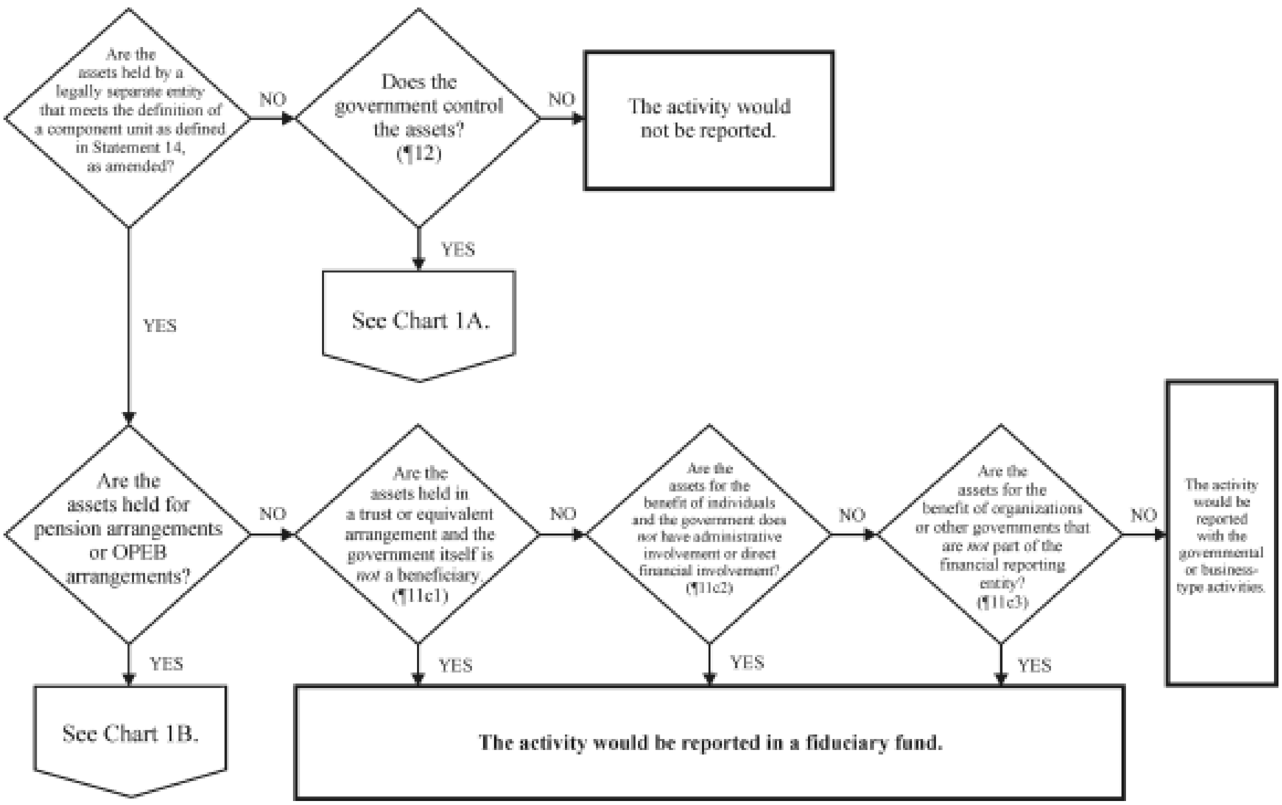
- The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged (for June 30 year- ends, the implementation date is June 30, 2020 and for December 31 year-ends, the implementation date is December 31, 2019).

- Changes adopted to conform to the provisions of this Statement should be applied retroactively by restating financial statements, if practicable, for all prior periods presented. If restatement for prior periods is not practicable, the cumulative effect, if any, of applying this Statement should be reported as a restatement of beginning net position (or fund balance or fund net position, as applicable) for the earliest period restated. In the first period that this Statement is applied, the notes to the financial statements should disclose the nature of the restatement and its effect. Also, the reason for not restating prior periods presented should be disclosed.

FLOWCHARTS FOR EVALUATING AND REPORTING POTENTIAL FIDUCIARY ACTIVITIES

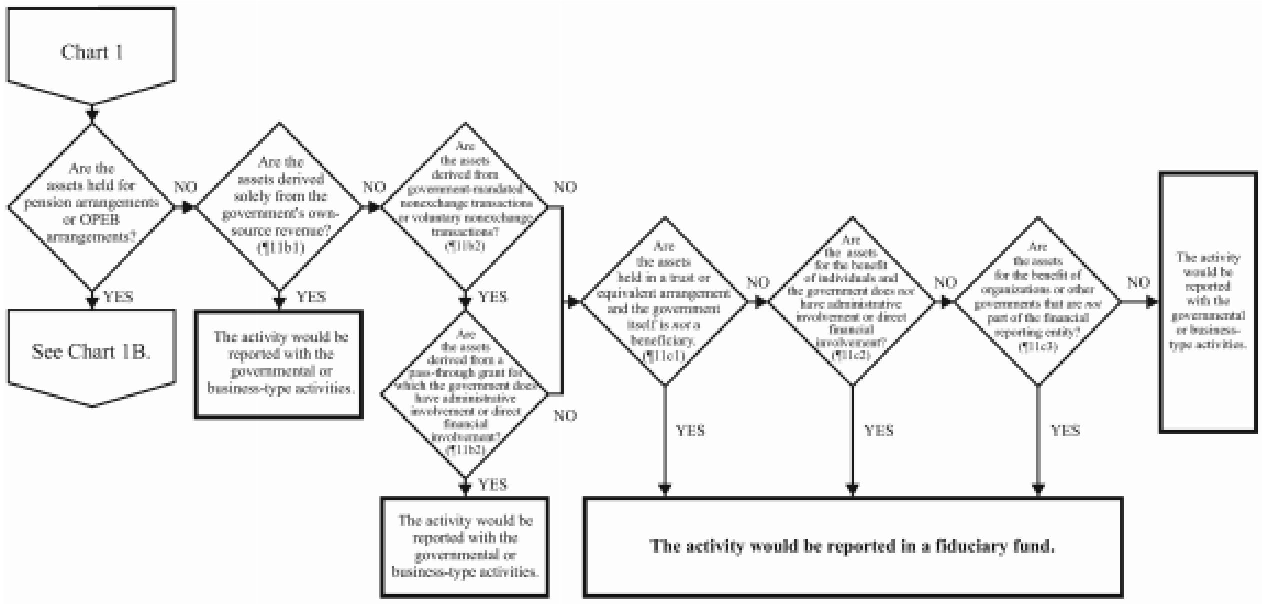
The following flowcharts are intended to aid in the application of the provisions of this Statement. The flowcharts are nonauthoritative and do not cover all aspects of this Statement. They should not be used in place of the Statement itself

Chart 1 - Flowchart for Evaluating and Reporting Potential Fiduciary Activities



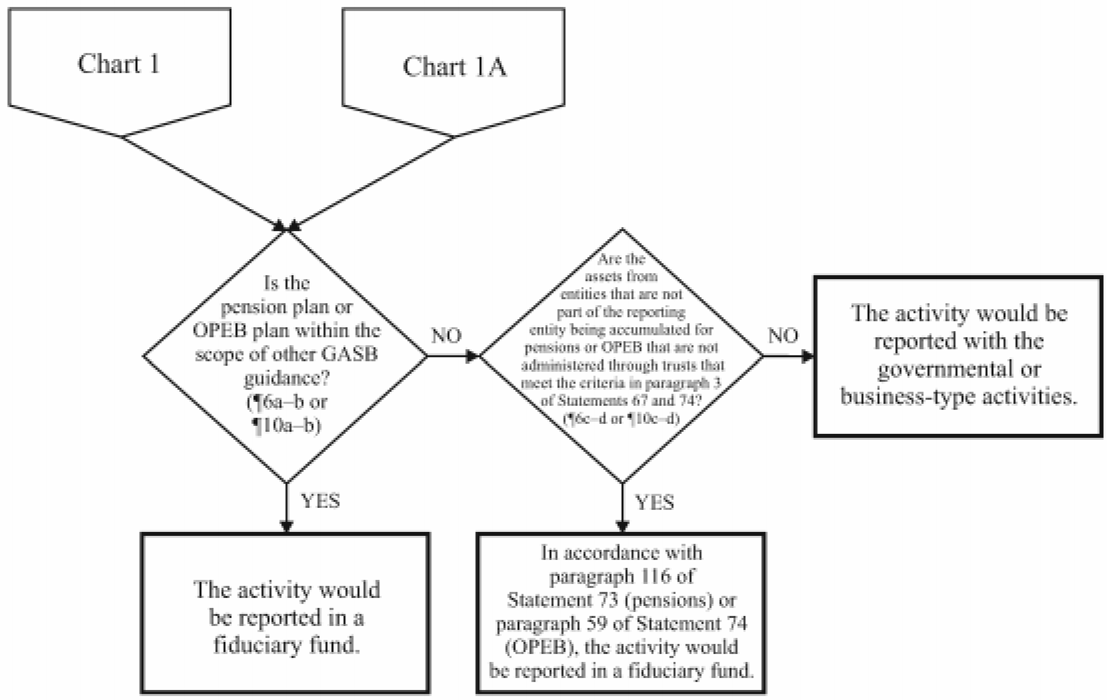
Source: GASB Statement No. 84, Appendix C

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

QUESTIONS AND ANSWERS CONCERNING IMPLEMENTATION OF GASB STATEMENT NO. 84

CCMA has developed Q&As that are unique for California local governments and are summarized below.

- Section 1 – Successor Agency Assets Held by a City
- Section 2 – OPEB Plans
- Section 3 – Pension Plans
- Section 4 – Investment Trust Funds
- Section 5 – Other Fiduciary Activities

Section 1 – Successor Agency Assets Held by a City

Q1.01 What is a Successor Agency?

In 2012, all redevelopment agencies in California were dissolved as the result of legislation signed into law by the governor. The dissolution legislation (Assembly Bills 1X 26 and 1484) provided that the non-housing assets of a dissolved redevelopment agency were to be transferred to a separate legal entity (Successor Agency) that was established for that dissolved redevelopment agency. As a part of the redevelopment agency dissolution process, the Successor Agency then transferred those assets intact to other units of government or liquidated the assets, the proceeds of which were then distributed to various taxing entities. On a go-forward basis, the Successor Agency twice a year receives the amount of tax increment that will be necessary to meet the debt service requirements of the outstanding enforceable obligations of the dissolved redevelopment agency. The body that controls the amount that can be collected by the Successor Agency and the financial obligations to which they can be applied is a seven-member body called the Oversight Board. There is one Oversight Board for each county of the state and each Oversight Board governs the financial activity of all of the Successor Agencies that are located within that county. The determinations of each Oversight Board are subject to approval by the California Department of Finance.

Q1.02 In the state dissolution statutes, what body is identified as the governing board of the successor agency?

The dissolution statute does not explicitly identify the body that controls the successor agency in the manner of a governing board. Although it is related to defined benefit pension/OPEB plans, Question 4.5 of the GASB 84 Implementation Guide states that the body that performs the duties of a governing board in the absence of one should be considered equivalent to a governing board for the units of government that it controls. Although defined contribution and other employee benefits plans are exempt from this principle of there being no board, the concept could be applied to Successor Agencies.

CCMA believes that for purposes of applying the criteria of GASB 14, as amended, the governing board of the Successor Agency is the Oversight Board and decisions of the Oversight Board are subject to approval of the State Department of Finance. The Oversight Board is ultimately responsible for the financial activity of the Successor Agency. State law provides that with respect to Successor Agency transactions, the actions of the Oversight Board take precedence over those of the City's City Council, and the Oversight Board can, at will, direct the staff of the City for purposes of managing Successor Agency activities.

Section 1 – Successor Agency Assets Held by a City (Continued)

Q1.03 How are the seven members of each county's Oversight Board selected?

(1) One member is appointed by the County Board of Supervisors.
(2) One member is appointed by a selection committee that represents all of the cities within the County.
(3) One member is appointed by a selection committee that represents all of the cities within the County.
(4) One member is appointed by the County Superintendent of Education.
(5) One member is appointed by the Chancellor of the California Community Colleges to represent community college districts in the county.
(6) One member of the public is appointed by the County Board of Supervisors.
(7) One member is appointed by the recognized employee organization representing the largest number of Successor Agency employees in the county.

Q1.04 What is the role of the City with respect to the Successor Agency?

Most cities agreed to serve as a fiduciary with respect to the Successor Agency associated with its community. For those cities, the City acts as a fiduciary holding and managing the assets of the Successor Agency under the terms of the State Department of Finance-approved Recognized Obligations Payment Schedule (ROPS). City staff perform the duties required by this fiduciary role, subject to the direction of the City's City Council, and ultimately that of the Oversight Board. The beneficiary of this fiduciary relationship is the Successor Agency, which is a separate legal entity controlled by the Oversight Board.

Q1.05 Should the assets held by a City on behalf of a Successor Agency be reported in a fiduciary fund of the City?

Yes, based on the information included in Questions 1.01 through 1.04 above and for the following reasons that also meet the criteria of paragraph 11c(1):

a. The City holds the assets.
b. The City directs the use, exchange, or employment of the Successor Agency assets held by the City based on the activities in the State Department of Finance-approved ROPS.
c. The assets held by the City are not derived from the City's own-source revenues and they are not government-mandated non-exchange or voluntary non-exchange transactions.
d. The beneficiary of this arrangement is an organization (the Successor Agency) that is not a part of the City's reporting entity.

Section 1 – Successor Agency Assets Held by a City (Continued)

Q1.06 Under the provisions of the Statement, how would the financial activity of the Successor Agency assets held by the City be presented in the City's financial statements?

Under the amended fund classifications of the Statement, a City's holding of Successor Agency assets should be reported in a private-purpose trust fund. The City's holding of Successor Agency assets is administered through State Statutes, which is an equivalent arrangement to a trust based on the following criteria:

(1) The beneficiary is a separate unit of government that is not a part of the City's financial reporting entity.
(2) The assets held by the City on behalf of that unit of government are dedicated to providing benefits to that unit of government (by applying funds received to pay the financial obligations of the Successor Agency).
(3) Successor Agency assets held by the City are legally protected from the creditors of the City.

***Recommendation**:* Report the Successor Agency with Fiduciary Funds as a private purpose trust fund.

Section 2 – OPEB Plans

IN SUMMARY:

Step 1: Determine whether the OPEB is administered through a trust:
1) Irrevocable contributions
2) Plan assets dedicated to providing benefits
3) Plan assets legally protected from creditors

Step 2: Determine if the OPEB Plan is a Component Unit:
1) Legally separate
2) Voting majority – Employer acting as the Plan Administrator
3) Financial benefit/burden or imposition of will ***and*** fiscal dependency

Step 3: For OPEB Plans NOT considered Component Units:
1) Does the employer CONTROL the assets?
   a) Holding the assets, or
   b) Ability to direct use, exchange or employment of assets, providing benefits to specified recipients

Note: The Plan encompasses the totality of the arrangement.
- If employer has not established a trust that meets the criteria of paragraph 3 of GASB Statement No. 74, then the employer need only report the benefit provided, using the requirements of Statement No. 75, as amended.
- If the employer has established a trust, regardless of whether the trust assets are used to pay benefits, then the OPEB Plan as a whole should be analyzed to determine reporting of trust activities under Statement No. 84.

CALIFORNIA SPECIFIC PLANS

Agent Multiple Employer Plan – OPEB under CERBT (CalPERS)

1) Legally separate – *Yes*
2) Voting Majority – The OPEB Plan Board is the same as the Employer’s Governing Body - *No*
3) Financial benefit/burden or imposition of will and Fiscal Dependency
   a. Employer makes contributions to the plan (financial burden) – *Yes*
   b. Approval of the plan’s budget or contributions requirements by Primary Government (imposition of will AND fiscal dependency) – *No*
4) Employer has control of the assets – *No*, while the employer has the ability to direct use, exchange or employment of assets, providing benefits to specified recipients for their portion of the trust, the employer does not control the assets of the CERBT as a whole.

Recommendation: Not a fiduciary activity; exclude from Fiduciary Fund Financial Statements.

Section 2 – OPEB Plans (Continued)

Agent Multiple Employer Plan – OPEB under PARS

1) Legally separate – *Yes*
2) Voting Majority – The OPEB Plan Board is the same as the Employer's Governing Body - *No*
3) Financial benefit/burden or imposition of will and Fiscal Dependency
    a. Employer makes contributions to the plan (financial burden) – *Yes*
    b. Approval of the plan's budget or contributions requirements by Primary Government (imposition of will AND fiscal dependency) – *No*
4) Employer has control of the assets – *No*, while the employer has the ability to direct use, exchange or employment of total trust assets, providing benefits to specified recipients for their portion of the trust, the employer does not have control of the assets of the PARS OPEB Plan as a whole.

Recommendation: Not a fiduciary activity; exclude from Fiduciary Fund Financial Statements.

Single Employer Plan – OPEB under Stand-Alone Plan

1) Legally separate – *Yes*
2) Voting Majority – the OPEB Plan Board is the same as the Employer's Governing Body –*Yes*
3) Financial benefit/burden or imposition of will and Fiscal Dependency
    a. Employer makes contributions to the plan (financial burden) – *Yes*
    b. Approval of the plan's budget or contributions requirements by Primary Government (imposition of will AND fiscal dependency) – *No*
4) Employer has control of the assets – *Yes*, Employer has the ability to direct use, exchange or employment of standalone investment account assets, providing benefits to specified recipients.

Recommendation: Activity should be reported in a Fiduciary Fund as an OPEB Trust Fund

Section 2 – OPEB Plans (Continued)

Q2.01 A government has established an OPEB plan, that is administered through CERBT in which the CERBT meets the criteria of paragraph 3 of Statement 74. CERBT is governed by the CalPERS Board. CERBT holds the investments and makes investment decisions based on an investment strategy selected by the government. Although CERBT has indicated that it is the Plan administrator, the government determines the amount of the contributions, if any, to the trust; and the government determines the timing of the distribution of the trust assets and whether those assets will be paid to the benefit provider or to the government to reimburse costs paid to the benefit provider directly. Should the OPEB Plan be reported in a fiduciary fund of the employer government?

No. OPEB arrangements administered through CERBT are NOT fiduciary activities.

Therefore, the plan should NOT be reported in the government's financial statements

CERBT is a legally separate entity and is not a component unit of the employer government. Therefore, the government should NOT report the CERBT OPEB Trust Fund in its financial statements.

***Recommendation**:* The employer government continues reporting the benefit arrangement in the financial statements under the provisions of GASB 75, as amended (GASB COD §P50)

Q2.02 Assume the same facts as in Question 2.01, except that the OPEB plan is administered through PARS. Should the OPEB plan be reported as a fiduciary fund of the employer government?

No. OPEB arrangements administered through PARS are NOT fiduciary activities.

Therefore, the plan should NOT be reported in the government's financial statements

PARS is a legally separate entity and is not a component unit of the employer government. Therefore, the government should NOT report the PARS OPEB Trust Fund in its financial statements.

***Recommendation**:* The employer government continues reporting the benefit arrangement in the financial statements under the provisions of GASB 75, as amended (GASB COD §P50)

Section 3 – Pension Plans

IN SUMMARY:

Step 1: Determine whether the Pension Plan is administered through a trust:

1) Irrevocable contributions
2) Plan assets dedicated to providing benefits
3) Plan assets legally protected from creditor

Step 2: Determination if the Pension Plan is a Component Unit:

1) Legally separate
2) Voting majority – Employer acting as the Plan Administrator
3) Financial benefit/burden or imposition of will ***and*** fiscal dependency

Step 3: For Pension Plans NOT considered Component Units:

1) Does the employer CONTROL the assets?
    a) Holding the assets, or
    b) Ability to direct use, exchange or employment of assets, providing benefits to specified recipients

Note: The Plan encompasses the totality of the arrangement.

- If employer has not established a trust that meets the criteria of paragraph 3 of GASB Statement No. 67, then the employer need only report the benefit provided, using the requirements of Statement No. 68, as amended.
- If the employer has established a trust, regardless of whether the trust assets are used to pay benefits, then the Pension Plan as a whole should be analyzed to determine reporting of trust activities under Statement No. 84.

CALIFORNIA SPECIFIC PLANS

Single Employer Plan

1) Legally separate – *Yes*
2) Voting Majority – the Pension Plan Board is substantially the same as the Employer's Governing Body – *Yes*
3) Financial benefit/burden or imposition of will and fiscal dependency
    a. Employer makes contributions to the plan (financial burden) – *Yes*
    b. Approval of the plan's budget or contributions requirements by Primary Government (imposition of will AND fiscal dependency) – *Yes*
4) Employer has control of the assets - *Yes*

Recommendation: Activity to be reported in a Fiduciary Fund Financial Statement as a Pension Trust Fund.

Section 3 – Pension Plans (Continued)

Agent Multiple Employer/Cost Sharing Plan – Pension under CalPERS or a County Plan

1) Legally separate – *Yes*
2) Voting Majority – the Pension Plan Board is substantially the same as the Employer's Governing Body – *No*
3) Financial benefit/burden or imposition of will and fiscal dependency
   a. Employer makes contributions to the plan (financial burden) – *Yes*
   b. Approval of the plan's budget or contributions requirements by Primary Government (imposition of will AND fiscal dependency) – *No*
4) Employer has control of the assets – *No*

Recommendation: Not a fiduciary activity; exclude from Fiduciary Fund Financial Statements.

Agent Multiple Employer/Cost Sharing Plan – Pension under PARS

1) Legally separate – *Yes*
2) Voting Majority – the Pension Plan Board is the same as the Employer – *No*
3) Financial benefit/burden or imposition of will and fiscal dependency
   a. Employer makes contributions to the plan (financial burden) – *Yes*
   b. Approval of the plan's budget or contributions requirements by Primary Government (imposition of will AND fiscal dependency) – *No*
4) Employer has control of the assets **-** *No*

Recommendation: Not a fiduciary activity; exclude from Fiduciary Fund Financial Statements.

Defined Contribution Plans – 401(a) Plan

1) Legally separate – *Yes*
2) Voting Majority – the Plan Board is the same as the Employer – *No*
3) Financial benefit/burden or imposition of will and fiscal dependency
   a. Employer makes contributions to the plan (financial burden) – *Yes*
   b. Approval of the plan's budget or contributions requirements by Primary Government (imposition of will AND fiscal dependency) – *No*
4) Employer has control of the assets – *No*

Recommendation: Not a fiduciary activity; exclude from Fiduciary Fund Financial Statements.

Section 3 – Pension Plans (Continued)

Q3.01 A government that provides pensions through a single employer plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 67 (Trust A) or provides pensions through CalPERS (agent multiple-employer plan or cost-sharing plan) (Trust A) establishes a separate Section 115 pension trust (Trust B) that can be used only to make contributions to Trust A. Prior to the issuance of Statement 84, the assets in Trust B could not be used to offset the net pension liability and were to be reported as assets of the government. Under the provisions of Statement 84, can the assets in the Trust B be reported in a fiduciary fund?

No. The assets in Trust B do not meet the criteria in paragraph 3 of Statement 67, since the assets are not dedicated to providing pensions to plan members. Statement 84 does not amend the provisions of Statement 67 and therefore the assets in Trust B should continue to be reported as assets of the employer in accordance with paragraph 115 or paragraph 116 of Statement 73, as amended, as applicable.

Additional information on the topic can be found in questions 5.67.1 to 5.67.4 of the GASB Comprehensive Implementation Guide.

Q3.02 A government has a single-employer supplemental pension plan administered through PARS or another trustee. The assets of the plan are not pooled with the government's other plans and are held in a trust that meets the criteria in paragraph 3 of Statement 67. The government determines the amount of the contributions to the trust; and the government's agreements with the plan participants determine the timing of the distribution of the trust assets to the plan participants. PARS or another trustee invests the plan assets and makes distributions to the plan participants when they come due. Should the pension trust be reported as a fiduciary fund?

Yes. Pension arrangements are fiduciary activities if the government controls the assets of the arrangement. Under Paragraph 12 of GASB 84 (above), the government has control of the assets since it can direct the use of the assets in a manner that provides benefits to the specified or intended recipients. Therefore, the plan should be reported in the government's fiduciary fund financial statements as a Pension Trust Fund.

Section 4- -Investment Trust Funds

Q4.01 For counties in California that manage external investment pools, should these investment pools be classified as Investment Trust Funds or Custodial Funds?

These investment pools should be classified as custodial funds, unless the county is holding those assets in a trust or equivalent arrangement, as described in paragraph 11c(1) of the Statement, then it would be reported as an Investment Trust Fund.

Q4.02 For counties in California that manage external investment pools that include involuntary participants, does the fact that the participation is involuntary cause any change to whether the investments should be classified as an Investment Trust Fund or Custodial Fund? Does the answer change if the investments are held in individual investment accounts?

The fact that the participation is involuntary, rather than voluntary, does not change how the investments are held. Therefore, it would only be appropriate to classify the investments held for involuntary participants as an Investment Trust Fund if the county is holding those assets in a trust, as described in paragraph 11c(1) of the Statement. This answer does not change if the investments are held in individually directed investment accounts versus being held in a pool.

However, under paragraph 18 of the Statement, any assets related to external investment pools that are not held in a trust that meets paragraph 11c(1) of the Statement should be reported in a separate External Investment Pool Fund column, under the custodial funds classification.

Section 5 – Other Fiduciary Activities

Q5.01 Pursuant to state law (SB 1186), a City is required to collect four dollars from each business that obtains a business license within the City. Of the four dollars, one is to be remitted to the state and three are to be used by the City to promote local activities with regard to disabled persons. Should the collection and disbursement of these funds be recorded in a fiduciary fund?

No. The nature of the transaction is exchange or exchange-like resulting in the fees collected being the City's own-source revenue, as described in paragraph 13 of Statement 84 and Implementation Guide 2019-2 Question 4.36. The funds collected should be recorded in a governmental or proprietary fund type. Three dollars will be reported upon receipt as restricted revenue and one dollar will be reported upon receipt as deposits payable until remitted to the State.

Q5.02 A City collects donations that are solicited by the City's Youth Advisory Board for various park and recreation activities. The Youth Advisory Board directs the use of the funds. The members of the Youth Advisory Board are residents of the City that are appointed to the Board by City Council. Should this activity be recorded in a fiduciary fund?

No. These funds are collected to support programs of the City, which makes the City a beneficiary. The funds should be reported as revenue of the City when collected.

Q5.03 The City collects donations that are directed by the donor to be used for a separate 501(c)(3) nonprofit organization. The nonprofit organization is not a component unit. The City is not a beneficiary of the donation. The City has no administrative involvement in the nonprofit organization other than collecting the donations and distributing the funds. Should this activity be reported in a fiduciary fund?

Yes, whether the City is simply remitting the funds to the nonprofit organization, or paying the expenses of the nonprofit organization, the result is the same: the activity should be reported in a fiduciary fund under custodial funds classification.

Q5.04 For certain construction contracts, the City withholds ten percent of the amount invoiced for services rendered as a retention to ensure the adequate delivery of service. Should this be reported in a fiduciary fund?

No. The activity is derived from the City's own-source revenues as noted in paragraph 11b of the Statement. Therefore, the City should report the activity in the fund responsible for funding the project expenditures (or capital asset) for the full amount of the invoice (i.e., including both the 90% to be paid immediately and the 10% that is to be withheld for remittance upon completion of the project). The 10% amount that is withheld should be recognized as a liability of the fund responsible for paying the invoices.

Section 5 – Other Fiduciary Activities (Continued)

Q5.05 In order for development or building activity to be approved in a City, the City requires the builder to place a deposit with the City. The deposit is expended by the City charging to the deposit costs that are associated with services provided by either City personnel or vendors of the City with respect to that project. Such services might include plan check, map check, review of project designs, review for conformity to the municipal code, etc. Should this activity be reported in a fiduciary fund?

No. The "deposit" is essentially a payment in advance for municipal services to be rendered to the payee. This activity should not be reported in a fiduciary fund. If material, the advance payment of funds should be reported as a liability (unearned revenue or deposit payable) of the fund entitled to the revenue for this activity (typically, the General Fund). Payroll and vendor costs incurred by the City to provide the required services should be recorded as expenditures of the paying fund. As such expenditures are incurred, an entry should also be made to debit the liability account that was established for the unearned revenue or deposit payable (in the amount of revenues earned by the delivery of service represented by the incurred costs) with a credit to recognize an equal amount of fee revenue.

Q5.06 To ensure that all applicable building codes are adhered to, the City collects from those building contractors performing work within the City a deposit to be refunded to the payor after inspection by the City's Code Enforcement Officer. Should this activity be reported in a fiduciary fund?

No. This is a City program that does not meet the requirements of paragraph 11 of the Statement. Therefore, the fund receiving these funds (typically the General Fund) should report a liability upon receipt. Upon payout, this liability account should be debited.

Q5.07 To ensure that all applicable building codes are adhered to, a building contractor is required to obtain an insurance policy (performance bond) that provides for payment to the City in the event that the contractor does not remedy deficiencies detected by the City during inspection of the construction for conformity to City building codes. Should the performance bond be reported as an asset in a fiduciary fund?

No. This is a City program that does not meet the requirements of paragraph 11 of the Statement. However, the performance bond is a contingent asset that is payable only upon the occurrence of certain specified events (i.e., nonperformance by the contractor). GAAP does not permit asset recognition for the contingent value of insurance policies.

Section 5 – Other Fiduciary Activities (Continued)

Q5.08 To ensure the all applicable building codes are adhered to, a building contractor deposits funds in a local bank for the issuance of a certificate of deposit in the name of both the City and the contractor performing work within the City. This deposit will be refunded to the payor after satisfactory inspection by the City's Code Enforcement Officer. Should the certificate of deposit be reported in a fiduciary fund?

No. This is a City program that does not meet the requirements of paragraph 11 of the Statement. Although this type of situation is not clearly addressed by GAAP, predominant practice is for local governments to not report such activity in its financial statements. Such "two party" assets are not in a strict sense "held" by the City, nor "controlled" by the City.

Q5.09 To mitigate the impacts of development and to provide funds for necessary infrastructure, the City imposes upon each developer certain development impact fees that are restricted for specified purposes. The City controls the expenditure of the collected funds for specified eligible projects in accordance with those restrictions. Should this activity be reported in a fiduciary fund?

No. This is a City program that does not meet the requirements of paragraph 11 of the Statement. Since these funds are restricted for the construction of infrastructure, the fund should be reported in a special revenue or capital projects fund.

Q5.10 A government reports tax and other payroll-related liabilities in an Agency Fund. Can that activity continue to be reported in a Custodial Fund?

No. The assets related to the payroll transactions do not meet all of the criteria of paragraph 11 of the Statement in that the assets are derived from the government's own-source revenues and the government has administrative involvement with the assets. In addition, the tax and other payroll-related liabilities are liabilities of the government. See also Implementation Guide Question 4.15.

Q5.11 As part of a development project, a developer is required to pay a developer impact fee assessed by a City and a mitigation fee assessed by the County. The City is responsible for collecting the fees. The City remits the County portion of the fee to the County. Should the County portion of the fee be recorded in a fiduciary fund?

Yes. The City has control of the asset, the fee does not meet the definition of own-source revenues, and the assets are for the benefit of another government that is not part of the financial reporting entity. See also Paragraph 11 of the Statement.

Q5.12 Assume the same facts as in Question 5.11, except that the mitigation fee can be retained by the City but must be used in accordance with the County's guidelines for City projects. Should the County portion of the fee be recorded in a fiduciary fund?

No, because the City is now a beneficiary of the assets. See also Paragraph 11 of the Statement.

Section 5 – Other Fiduciary Activities (Continued)

Q5.13 The City had several CFD Assessment District bonds outstanding with no City obligation. Under the current accounting practice, the bonds were reported in agency funds in order to account for the reserve accounts and the assessments collected, etc. with a corresponding liability "Due to bondholders". The City then issued PFA bonds that are City obligations to purchase the outstanding assessment bonds, so the City became the bondholder of the assessment bonds and now record an investment in bonds in its PFA debt service fund.

Under the provisions of the Statement, can the City account for the collection of CFD assessments and the CFD reserve accounts of the assessment bonds using a Custodial Fund?

Yes. The City has control of the CFD assets. The City is acting as an agent to collect the CFD assessment taxes from taxpayers and make debt service payments to the bondholders of the CFD bonds, debt for which the City has no obligation. Although in this example the City is the bondholder through the PFA's investment in the CFD bonds, the accounting for the PFA transactions is separate from the CFD transactions.

EXHIBIT A

Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 20xx

	Other Post Employment Benefit (OPEB) Trust Fund
ASSETS	
Cash and cash equivalents	$ 136,458
Receivables:	
Interest and dividends	12,525
Sale of investments	47,586
Total receivables	60,111
Investments at fair value:	
Short-term investments	2,354,687
Bonds, notes, mortgages, and preferred stock	25,415,364
Common stock	20,525,466
Real estate	1,546,853
International investments	1,598,561
Mutual funds	75,123
Pooled investment funds	54,685
Total investments	51,570,739
Total assets	51,767,308
LIABILITIES	
Accounts payable	135,850
Total liabilities	135,850
NET POSITION	
Restricted for OPEB	51,631,458
Total net position	$ 51,631,458

Source: GASB Statement No. 84

EXHIBIT A

Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the year ended June 30, 20xx

		Other Post Employment Benefit (OPEB) Trust Fund
ADDITIONS		
Contributions:		
Members	$	287,565
Employer		1,254,684
Total contributions		1,542,249
Investment earnings:		
Net increase in fair value of investments		1,546,852
Interest and dividends		1,452,164
Total investment earnings		2,999,016
Less investment costs:		
Investment activity costs		54,235
Net investment earnings		2,944,781
Total additions		**4,487,030**
DEDUCTIONS		
Benefits paid to participants or beneficiaries		1,856,404
Medical, dental, and life insurance for retirees		546,853
Refunds and transfers to other systems		2,145
Administrative expense		3,158
Total deductions		**2,408,560**
Net increase (decrease) in fiduciary net position		**2,078,470**
Net position, beginning of year		49,552,988
Net position, end of year	**$**	**51,631,458**

Source: GASB Statement No. 84

EXHIBIT B

Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 20XX

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds	Custodial Funds *
ASSETS				
Cash and cash equivalents	$ 184,351	$ 840,693	$ 104,747	$ 58,196
Receivables:				
Employee	2,123	—	—	—
Employer	83,004	—	—	—
Taxes for other governments	—	—	—	206,937
Interest and dividends	175,402	12,166	—	—
Sale of investments	30,879	—	—	—
Total receivables	291,408	12,166	—	206,937
Investments at fair value:				
Short-term investments	2,268,960	241,645	61,591	—
Bonds, notes, mortgages, and preferred stock	14,115,391	804,576	187,650	—
Common stock	20,342,440	—	520,196	—
Real estate	3,408,145	—	—	—
International investments	1,723,951	—	—	—
Mutual funds	72,315	178,046	—	—
Pooled investment funds	23,128	—	—	—
Total investments	41,954,330	1,224,267	769,437	—
Securities lending collateral	1,746,544	—	—	—
Other assets	13,519	181	81,157	361
Total assets	44,190,152	2,077,307	955,341	265,494
LIABILITIES				
Accounts payable and other liabilities	130,846	1,361	61,447	1,451
Due to local governments	—	—	—	164,201
Obligations under securities lending	1,346,544	—	—	—
Other long-term liabilities	1,617	—	7,870	—
Total liabilities	1,479,007	1,361	69,317	165,652
NET POSITION				
Restricted for:				
Pensions	29,897,802	—	—	—
Postemployment benefits other than pensions	12,813,343	—	—	—
Pool participants	—	2,075,946	—	—
Individuals, organizations, and other governments	—	—	886,024	99,842
Total net position	$ 42,711,145	$ 2,075,946	$ 886,024	$ 99,842

Source: GASB Statement No. 84

* If external investment pool assets are not held in a trust, two columns are to be reported. See paragraph 18 of the Statement.

EXHIBIT B

Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 20XX

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds	Custodial Funds *
ADDITIONS				
Contributions:				
Members	$ 297,846	$ —	$ —	$ —
Employers	1,259,384	—	—	—
Other plans	148,792	—	—	—
Gifts and bequests	—	—	197,258	—
Total contributions	1,706,022	—	197,258	—
Investment earnings:				
Net increase in fair value of investments	1,852,408	64,663	33,702	—
Interest, dividends, and other	1,416,448	58,465	30,378	—
Securities lending income	76,075	—	—	—
Total investment earnings	3,344,931	123,128	64,080	—
Less investment costs:				
Investment activity costs	32,281	50,236	63	—
Securities lending costs	73,642	—	—	—
Net investment earnings	3,239,008	72,892	64,017	—
Capital share and individual account transactions:				
Shares sold	—	2,817,210	—	—
Reinvested distributions	—	72,892	—	—
Shares redeemed	—	(2,776,843)	—	—
Net capital share and individual account transactions	—	113,259	—	—
Sales tax collections for other governments	—	—	—	1,811,120
Miscellaneous	1,130	—	—	1,468
Total additions	4,946,160	186,151	261,275	1,812,588
DEDUCTIONS				
Benefits paid to participants or beneficiaries	1,963,047	—	—	—
Medical, dental, and life insurance for retirees	536,027	—	—	—
Refunds and transfers to other systems	170,514	—	—	—
Administrative expense	19,920	—	43	293
Beneficiary payments to individuals	—	—	211,179	—
Payments of sales tax to other governments	—	—	—	1,811,120
Distributions to shareholders	—	72,892	—	—
Total deductions	2,689,508	72,892	211,222	1,811,413
Net increase (decrease) in fiduciary net position	2,256,652	113,259	50,053	1,175
Net position—beginning	40,454,493	1,962,687	835,971	98,667
Net position—ending	$ 42,711,145	$ 2,075,946	$ 886,024	$ 99,842

Source: GASB Statement No. 84

* If external investment pool assets are not held in a trust, two columns are to be reported. See paragraph 18 of the Statement.