

With the issuance of GASB 95, GASB delayed the effective date of Statement No. 84. As a result, AOS updated their GASB 84 FAQs to communicate timeline changes for fund classifications and budgeting requirements as well as the new regulatory statements.

See also [GASB 84 FAQs](#)

# OHIO AUDITOR OF STATE KEITH FABER



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## Auditor of State Bulletin 2020-003

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**DATE ISSUED:** February 27, 2020

**TO:** All Public Offices  
Independent Public Accountants

**FROM:** Keith Faber  
Ohio Auditor of State

**SUBJECT:** Governmental Accounting Standards Board Statement No. 84 –  
*Fiduciary Activities*

### Background Information

The Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, includes guidance for identifying fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

The GASB issued an implementation guide to supplement the guidance found in GASB 84. The Implementation Guide is organized in a question and answer format. This bulletin references specific questions from the Implementation Guide No. 2019-2, *Fiduciary Activities* (IG).

The requirements of this Statement apply to all Ohio state and local governments that prepare GAAP (Generally Accepted Accounting Principles) Statements, including those with a GAAP reporting requirement per Ohio Admin. Code (OAC) §117-2-03(B). Some other governments may be subject to GAAP reporting requirements, such as through a debt covenant. GASB 84 is effective for financial statements for periods beginning after December 15, 2018. Meaning, governments with a December 31 fiscal year end must apply it to their December 31, 2019 GAAP financial statements; school districts and other governments with a June 30 fiscal year end must apply GASB 84 to their June 30, 2020 GAAP financial statements. Guidance from the implementation guide will also be effective at this time. Any local governments that early implemented GASB 84 will also need to apply the guidance from the implementation guide.

Applicability to Non-GAAP entities is addressed later in this bulletin.

## **Fiduciary Component Units**

GASB 84 establishes criteria in paragraphs 6 through 9 for when a component unit is a fiduciary activity. Generally, pension plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 and other postemployment benefits (OPEB) plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 74 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 pension plan or OPEB plan. (GASB 84 ¶7)

GASB 84 paragraph 8 identifies when a component unit, that is not a pension arrangement or OPEB arrangement, is a fiduciary activity.

GASB 84 paragraph 10 explains how to treat pension and OPEB arrangements that are not component units.

## **Criteria for Fiduciary Activity**

For all fiduciary activity not addressed above, the criteria for identifying fiduciary activity is found in paragraph 11 of GASB 84. For activity to be considered fiduciary, it should meet three criteria: the assets are controlled by the government; the assets associated with the activity are not own source revenue or result from nonexchange transactions (with certain exceptions), and the assets must meet one of the remaining characteristics which establish the assets are held in trust or are held for the benefit of individuals, organizations or other governments.

### ***The assets are controlled by the government. (GASB 84 ¶11 a):***

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.

A government uses an asset when it expends or consumes that asset for the benefit of individuals, organizations, or other governments outside of the government's provision of services to them.

When a government appoints a designee to act on its behalf, the designee is performing the government's fiduciary duties and not assuming them. Thus, appointing a designee to act on its behalf does not alter the government's ability to direct the use, exchange, or employment of the assets. (GASB 84 ¶12)

***Fiduciary assets are not own-source revenue or result from nonexchange transactions. (GASB 84 ¶11 b):***

The assets associated with the activity are not derived either:

- 1 Solely from the government’s own-source revenues, or
- 2 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.

*Note:* If custodial funds are receiving revenues from government-mandated nonexchange transactions or voluntary nonexchange transactions, the transaction should be evaluated under GASB 24 to determine if there is administrative involvement or direct financial involvement. This includes undivided state levied shared amounts.

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

For purposes of evaluating administrative involvement and direct financial involvement of a government that is a recipient of a pass-through grant the following definition should be applied:

A recipient government has administrative involvement if, for example, it (a) monitors secondary recipients for compliance with program-specific requirements, (b) determines eligible secondary recipients or projects, even if using grantor-established criteria, or (c) has the ability to exercise discretion in how the funds are allocated. A recipient government has direct financial involvement if, for example, it finances some direct program costs because of a grantor-imposed matching requirement or is liable for disallowed costs. (GASB 24 ¶5 & GASB 84, fn 2)

***The assets have one or more of the following characteristics (GASB 84 ¶11 c):***

- 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. (Note: this is the GASB 84 ¶11 c (1) criteria referred to in some of the following trust fund definitions.)
- 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.

A government has administrative involvement with the assets if, for example, it (a) 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, (b) determines eligible expenditures that are established by the government or by a resource provider that does not receive the direct benefits of the activity, or (c) has the ability to exercise discretion over how assets are allocated. A government has direct financial involvement with the assets if, for example, it provides matching resources for the activities. (GASB 84, fn1)

### **Fiduciary Fund Type Definitions**

***Pension (and other employee benefit) trust funds:*** These are used to report fiduciary activities for the following (GASB 84 ¶15):

- 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 that meets the criteria in GASB 84 ¶11 c (1), and (2) contributions to the trust and earnings on those contributions are irrevocable.

***Investment trust funds:*** These 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 in GASB 84 ¶11 c (1). (GASB 84 ¶16) If the activity does not meet the criteria in GASB 84 ¶11 c (1), it can be evaluated under the custodial fund type definition.

***Private-purpose trust funds:*** These 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 in GASB 84 ¶11 c (1). (GASB 84 ¶17) If the activity does not meet the criteria in GASB 84 ¶11 c (1), it can be evaluated under the custodial fund type definition. (GASB 84 IG 4.41 and 4.42)

***Custodial funds:*** These 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. The external portion of investment pools that are not held in a trust that meets the criteria in GASB 84 ¶11 c (1) should be reported in a separate external investment pool fund column under the custodial funds classification. (GASB 84 ¶18)

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. (GASB 84 ¶19)

### **Statement of Fiduciary Net Position**

Fiduciary funds will present a statement of fiduciary net position to report assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position. The new custodial funds will present net position. (GASB 84 ¶20)

With certain exceptions for pension and OPEB trusts, 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. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. For example, a county government should recognize a liability when it collects taxes for other governments, even though it may not be required to distribute the taxes to those governments until a specified time in the future. Liabilities, other than those to beneficiaries, should be recognized in accordance with existing accounting standards using the economic resources measurement focus. (GASB 84 ¶21)

### **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. Unless amounts are expected to be held for three months or less, the statement of changes in fiduciary net position should disaggregate additions by source. The statement of changes in fiduciary net position should disaggregate deductions by type and, if applicable, should separately display administrative costs. A single aggregated total for additions and a single aggregated total for deductions can be used for custodial funds when, upon receipt, amounts are normally expected to be held for three months or less. (GASB 84 ¶23 and ¶24)

### **Types of Activity Currently Found in Agency Funds**

The following describes activity currently found in agency funds and explains how that activity will be viewed under GASB 84. Our website contains a GASB 84 Analysis Chart that summarizes how these various types of activity should be maintained on a local government's day-to-day books, and how it should be reported on a Regulatory basis, on Regulatory Statements prepared by a local government that is mandated to prepare GAAP Statements, on an OCBOA basis (GAAP look-alike) and on a GAAP basis.

The Auditor of State's Office (AOS) has historically tried to match fund structure for day-to-day recording to GASB fund definitions. However, with GASB 84, there are some instances where this may generate more complex reporting than may be necessary. Therefore, in some instances, AOS is prescribing a simplified approach for recording for day-to-day cash basis transactions

along with simplified reporting for regulatory filers that are not required to prepare GAAP statements. However, regulatory filers who are mandated to prepare GAAP statements will receive an adverse opinion for not reporting on the proper framework and should not be following this simplified reporting. In the following discussion of the types of activity found in agency funds, the regulatory reporting described applies to regulatory filers who are not mandated to file GAAP statements. Regulatory filers who are mandated to prepare GAAP statements should be following the fund structure as prescribed for GAAP filers.

**Amounts held for other Governments/Organizations:** Within current agency funds, there are several types of activity that are considered amounts held for other government/organizations, including: (GASB 84 ¶11 c (3))

***Fiscal Agent for legally separate organizations:*** If the primary government serves as fiscal agent for a legally separate organization, the activity will be reported as a custodial fund for all types of reporting. However, if this legally separate organization is presented as a component unit of the primary government, the custodial fund will not be shown on the financial statements. A custodial fund and a component unit should not be reported for the same activity. Common examples of legally separate organizations for which a county serves as fiscal agent include: District Board of Health, Family and Children First, Soil and Water Conservation, Regional Planning, among others. Currently, regulatory filers have the option to present component unit activity in the financial statements or report the relationship in the notes. This option will remain unchanged for regulatory filers; however, if they present the component unit, then any fiduciary activity should not be included on the financial statements. (GASB 84 ¶11 c (3))

***Cash conduit for grants:*** Local governments sometimes receive grants or other financial assistance (including state levied shared monies) to pass on to a secondary recipient. Under GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, when a recipient government serves only as a cash conduit, the grant is reported in an agency fund. This activity has been reported as an agency fund under GASB 24, and will be reported as a custodial fund under GASB 84 for all types of reporting. Counties currently serve as a cash conduit for distributing certain state-levied shared revenues, including; MVL, Gas Tax, Personal Property Tax Reimbursement, Local government money, Library Local government money, and Homestead and Rollback, among others. This activity will be presented in custodial funds.

***Clearing account with external participation:*** Local governments will sometimes collect dollars and distribute those dollars to other entities as well as other funds of the government. Under GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, any balances in these funds that pertain to other funds of the government are reported in the appropriate funds rather than in the agency fund. Under GASB 84, this guidance is expanded to include the additions and deductions of the fund as well. These types of clearing funds will present only the amounts related to outside entities. For example the following would meet the

GASB 84 definition of a custodial fund: OHSAA Tournament money with School District's money eliminated; County undivided with all county money eliminated; County court money with all county money eliminated; and Arson Registry [Ohio Rev. Code (ORC) §2909.15]. GAAP filers and OCBOA filers will be following this GASB 84 guidance. Since the local government's money is collected along with the amounts for the other governments, using a custodial fund for these unallocated resources will be allowed to continue on a local government's day-to-day books. Regulatory filers can include their government's resources within in the custodial fund on their financial statements.

***Amounts held for Individuals:*** When dollars are held for individuals, an evaluation will need to be made to determine if the local government has administrative involvement or direct financial involvement. These definitions are included on page 3 of this bulletin. If the local government has administrative involvement or direct financial involvement, the activity will not be fiduciary.

Examples of moneys held where the local government typically has no administrative involvement include money for residents in healthcare facilities and money for inmates in correctional institutions. Although the conclusion of no administrative involvement is typical for these types of accounts, each local government should perform its own evaluation. When there is no administrative involvement or direct financial involvement, the activity will be custodial for all types of reporting.

Examples of money held where the local government has administrative involvement include school district student activity funds (USAS 200 funds). Student activity funds are viewed as being held for individuals. (IG 4.16) Student activity funds are viewed as having school district administrative involvement as the school district has a faculty advisor who approves disbursements (IG 4.20), the school district establishes policies (IG 4.21), and certain policies are established by the State (IG 4.23). School districts should review their 200 funds and reclassify any funds that should not be 200 funds, including amounts held for other governments or organizations. School districts also have administrative involvement when school district employees determine the recipients of college scholarships. When there is administrative involvement or direct financial involvement, the activities will not be fiduciary for any types of reporting.

***Own source revenue:*** Unless an exception is noted below, current agency funds whose revenue source is the government's own source revenue will need reclassified to another fund type for all types of reporting.

***Performance bonds and fire trusts (ORC 3929.86):*** These are part of an exchange transaction and should not be reported as a custodial fund. An exception to this would be if the local government is holding the fire trust money for another political subdivision. Performance bonds include cash received prior to the beginning of a project which is held to ensure satisfactory performance by another party. To simplify reporting, day-to-day books and regulatory filers can continue to report these items in custodial funds.

***Retainage:*** For all types of reporting, retainage is not fiduciary as local governments hold retainage for their own benefit. It arises from an exchange transaction between the local government and the contractor.

***Guarantee Deposits:*** For all types of reporting, guarantee deposits related to utilities are not fiduciary and will continue to be reported with enterprise funds.

***Sheriff Money:*** The sheriff's office has various bank accounts. The accounts will need to be reviewed as these accounts typically include own source revenue.

***Marriage License Fee:*** The portion of the marriage license fee that is collected for the purpose of funding shelters for victims of domestic violence is considered the government's own source revenue. Under GASB 84, these dollars should not be reflected in a custodial fund. This treatment is consistent with AOS Bulletin 2011-004.

***Motor Vehicle License Tax:*** Counties have the ability to levy certain motor vehicle license taxes which the county will review and determine the amount distributed to municipal corporations (ORC 4504.04 and 4504.05) and townships (4504.05). Under GASB 84, these dollars should not be reflected in a custodial fund.

***Payroll clearing:*** Once dollars are withheld from the employee's checks, the local government is obligated to remit the dollars; therefore, there is a liability for these amounts. Under GASB 84, payroll clearing funds are not considered custodial. (GASB 84 IG 4.15) To simplify the reporting for regulatory filers, these amounts can be reflected in a custodial fund. For OCBOA filers, these will not be fiduciary and the balance will need to revert back to the fund that paid the employee and reduce the expenditure. For GAAP filers, these will not be fiduciary and will need to revert back to the fund that paid the employee as cash and payroll withholding payable. As an alternative, these balances can also be brought back to the general fund on a GAAP basis, provided they represent only employee payroll withholdings. The day-to-day reporting of payroll clearing will not change as this is a part of the year end W-2 process.

Also, on a cash basis and for regulatory reporting, whether a payroll clearing account is used can alter the reporting on the regulatory statements. When a payroll clearing account/fund is used, gross payroll is expensed with the withholding held in a separate fund/account until payment is due. When no payroll account/fund is used, net payroll is expensed on the pay date with the withholding expensed when paid (when due). Beginning with financial statements for 2020, regulatory reports will include note disclosure to address this difference.

***Clearing accounts with only internal participation:*** Local governments will sometimes collect dollars and distribute those dollars to other funds of the government. These unallocated resources are held by the local government until the resources can be allocated to the individual funds. For the day-to-day books, these funds will be allowed to continue. To simplify the reporting for regulatory filers, these amounts can be reflected in a custodial fund. For GAAP and OCBOA, these funds will not be presented as their activity is already reflected in the

governmental/proprietary funds of the government. These fund are intended to be temporary and should not be accumulating an ongoing balance. If these funds have any cash balance, this balance will need allocated to the appropriate individual fund. For counties, this category will include the Medicaid Sales Tax Transition Fund.

***Flow through clearing fund:*** These funds are typically used by counties in conjunction with their undivided funds for taxes. When the taxes are ready to be settled, instead of going directly to the local government, they flow from the undivided fund to an entity-type fund (e.g. township, village, school district) and then are distributed to the specific entity. For GAAP and OCBOA these funds will not be presented as their activity is already reflected in other funds of the government. If these funds have any cash balance, this balance will need allocated to the appropriate individual fund.

***Funds used for the payment of bills:*** Some governments use a separate fund to accumulate dollars for the payment of future bills. These are most commonly seen with the employer share of pension. If the fund is a temporary clearing account used for day-to-day operations and routinely zeros out, it will be permissible for day-to-day books. However, if the fund is accumulating a balance, it will be viewed as a set-aside which needs to be authorized by State Statute. Any fund that is being used as a set aside that is not authorized by State Statute, will need to return the balance to the rightful fund with 2021 budget year. For GAAP and OCBOA, these temporary funds will not be presented as their activity is already reflected in the governmental/proprietary funds of the government. If these fund have any cash balance, this balance will need allocated to the appropriate individual fund.

***Investment trust funds and private purpose trust funds:*** Each entity will need to review their trust agreements to ensure they are complaint with the GASB 84 ¶11 c (1) criteria found on page 3 of this bulletin. All types of reporting will need to meet the GASB 84 definition. Any trust funds not meeting this GASB 84 ¶11 c (1) criteria, will need to be reclassified, both for day-to-day reporting and all types of financial reporting.

### **Applicability to Non-GAAP Entities**

Governments that prepare Other Comprehensive Basis of Accounting (OCBOA) statements will need to follow GASB 84 fund definitions and display requirements. Governments statutorily required to prepare GAAP statements that prepare regulatory statements will need to follow GASB 84 fund definitions.

For 2019, governments not statutorily required to prepare GAAP statements that prepare regulatory statements will not need to make any changes to their financial reporting. These governments can use the term agency or custodial to describe their funds.

Effective with 2020 statements, governments not statutorily required to prepare GAAP statements that prepare regulatory statements will be preparing a new Statement of Changes for their Fiduciary Funds. For governments not mandated to prepare GAAP Statements, new accounts have

been established to facilitate the preparation of this new statement. These new accounts can be found in the 2020 updated UAN Accounting and General Manual at:

[https://uanlink.ohioauditor.gov/training/accounting/manuals/Accounting\\_General%20Manual%20Version%202019.2.pdf](https://uanlink.ohioauditor.gov/training/accounting/manuals/Accounting_General%20Manual%20Version%202019.2.pdf)

Regulatory (not GAAP mandated) filers are following a simplified version of GASB 84 which allows, in certain instances identified above, clearing accounts which allocate dollars to the local government's governmental or proprietary funds to continue to be presented as fiduciary. However, amounts that are allocated to the local government's governmental or proprietary fund should be separately identified in the "Distributions to other funds (primary government)" on the financial statements.

### **Transition**

Governments should restate beginning net position/fund balance to conform to the fund definitions contained in GASB 84.

### **Budgetary Considerations**

Custodial funds will not need to be budgeted. Although GASB 84 is effective for 2019 for governments with a December 31st year end, any changes in fund classification will not need to be made to the day-to-day books or budgeted until the 2021 budget year. Schools will need to begin budgeting according to GASB 84 fund classifications for fiscal year 2021.

On the GASB 84 Analysis Chart, the column labeled "Day-to-Day Books/Budgetary" indicates if the fund is considered custodial for budgetary purposes. If this column identifies a fund as custodial, it does not need to be budgeted.

### **Audit Considerations**

As noted in the prior section, any fund classifications will not need made to the day-to-day books or budgeted until the 2021 budgetary year. Therefore, auditors should not issue noncompliance citations for the failure to budget these funds until the 2021 budget year audits. Also, auditors should use professional judgement when determining whether control deficiencies exist in the entity's financial statement framework preparation process when misstatements result from implementation.

### **Additional Resources Available on the Auditor of State’s Website**

The Auditor of State’s Office has a GASB 84 Analysis Chart, a sample new Statement of Changes, and a Frequently Asked Questions (FAQ) document available related to GASB 84’s implementation available on our website at:

[www.ohioauditor.gov/references/gasb84.html](http://www.ohioauditor.gov/references/gasb84.html)

The Chart and the FAQs will be updated as additional information becomes available.

### **Questions**

If you have any questions regarding the information presented in the Bulletin, please contact Local Government Services at the Auditor of State’s Office at (800) 345-2519.

A handwritten signature in black ink that reads "Keith Faber". The signature is written in a cursive, flowing style.

Keith Faber  
Ohio Auditor of State