



# North Carolina Office of the State Controller

## Financial Reporting Update

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### **GASB 84 Effective for **FY 2021****

October 1, 2018

**Update: February 13, 2019 – added a link to The GASB Exposure Draft on the proposed Implementation Guide for Fiduciary Activities; added references and examples based on the proposed implementation guide.**

**Update: June 5, 2020 –updated the effective date based on GASB Statement 95; updated references to the Implementation Guide; updated the link to the Implementation Guide; updated the reporting criteria based on guidance issued in GASB Statement 92; added Appendix B – Reporting and Restatement Guidance and Examples**

**Update: April 28, 2021 – added Appendix C, Component Unit Q & A.**

In January 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 84, *Fiduciary Activities* (GASB 84). This Statement supersedes or amends parts of 20 existing statements. GASB 84 establishes criteria regarding what constitutes fiduciary activities for accounting and financial reporting purposes, the recognition of liabilities to beneficiaries and how fiduciary activities should be reported. The objective of this Statement is to enhance the consistency and comparability of fiduciary activity reporting by state and local governments. It also is intended to improve the usefulness of fiduciary activity information primarily for assessing the accountability of governments in their roles as fiduciaries.

This Statement applies to all state and local governments engaged in fiduciary activities and clarifies that standalone business-type activities (BTAs) should report fiduciary activities. This statement is expected to impact standalone BTAs particularly (such as universities, community colleges, component units, and others), as they currently do not have fund-level financial reporting requirements. This reporting requirement does not apply to standalone reporting for enterprise funds, only legally separate entities.

GASB 84 was originally effective for fiscal year ending June 30, 2020. However, in May 2020, GASB issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (GASB 95). To determine where entities stood with the implementation of GASB 84, the Office of the State Controller (OSC) sent a survey to state entities asking if early implementation would cause a hardship. Based on the feedback received, OSC decided to delay the implementation of GASB 84 to fiscal year ending June 30, 2021 (based on the guidance in GASB 95). The criteria should be applied retroactively. The provisions of GASB 84 need not be applied to immaterial items.

Fiduciary activities are those activities that state and local governments carry out for the benefit of individuals and other agencies outside the government. GASB 84 provides criteria for state and local governments to use to identify whether an activity is fiduciary and whether it should be reported as a fiduciary fund type in the basic financial statements. 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. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

### Identifying Fiduciary Activities

Under GASB 84, there are four paths for identifying fiduciary activities. Two of the paths involve fiduciary component units: 1) fiduciary component units that are postemployment benefit arrangements and 2) fiduciary component units that are not postemployment benefit arrangements. The remaining two paths are 3) postemployment benefit arrangements that are not fiduciary component units and 4) other fiduciary activities. Most fiduciary activities will be identified using Path 1 or Path 4. Common examples of fiduciary activities identified in Path 1 include pension and OPEB trust funds. Common examples of fiduciary activities identified in Path 4 include the external portion of an external investment pool, taxes collected on behalf of other governments, and funds held for the benefit of others such as patient, minor, inmate, seized cash/other financial assets, and student club/extracurricular accounts. See Appendix A for additional information on fiduciary activity criteria and identifying these activities.

### Reporting Fiduciary Activities in Fiduciary Funds

Activities meeting the criteria of a fiduciary activity are required to report the activity as a fiduciary fund in the basic financial statements. There is some relief of the fund financial presentation for business-type activities, including enterprise funds, which are allowed to report assets with the corresponding liability in the statement of net position if the assets are expected to be held for three months or less, instead of reporting those in a separate custodial fund. If a BTA takes advantage of this exception, it will separately report the significant additions and deductions (as cash inflows and cash outflows) in the operating activities category of its statement of cash flows. Refer to questions 4.45, 4.46 and 4.50 in the Implementation Guide No. 2019-2, *Fiduciary Activities* for examples on business-type activity exceptions and guidance on determining if the assets are “normally” held for 3 months or less.

As with previous guidance, GASB 84 identifies four types of fiduciary funds: pension and other employee benefit trust funds, investment trust funds, private purpose trust funds and custodial funds. The use of agency funds has been eliminated with this statement and is replaced with custodial funds. It is anticipated that many of the activities now reported in agency funds will be reported in custodial funds.

GASB 84 has created new definitions for the four fiduciary fund types and has clarified that fiduciary assets administered through a trust agreement or an equivalent arrangement that meets specific criteria must be recorded in one of the three trust funds: pension and other employee benefit, investment, or private-purpose trust funds. Refer to GASB 84 paragraph B19 for the definition of an equivalent arrangement that meets specific criteria. Custodial funds will report only fiduciary activities that are not held in a trust agreement or equivalent arrangement that meets specific criteria. Additionally, the external portion of external investment pools that are not held in trust or an equivalent arrangement that meet the criteria of GASB 84 should be reported in a separate external investment pool fund column, under the custodial funds classification. Refer to questions 4.39 and 4.40 (Investment Trust Funds), 4.41 (Private Purpose Trust Funds), and 4.42 – 4.44 (Custodial Funds) in the Implementation Guide No. 2019-2, *Fiduciary Activities* for examples reporting fiduciary activities in fiduciary funds.



Under GASB 84, all fiduciary fund statements will include a statement of fiduciary net position and statement of changes in fiduciary net position. A significant change with the implementation of this Statement will involve the conversion of agency funds to custodial funds. Agency funds only required the presentation of assets and liabilities, whereas the custodial funds require the same elements as the other fiduciary funds, including net position.

The statement of fiduciary net position should report the following financial statement elements: assets, deferred outflows, liabilities, deferred inflows and fiduciary net position of fiduciary funds. A defined benefit pension or defined benefit OPEB plan in a pension trust fund should follow the requirements of GASB Statement No. 67, *Financial Reporting for Pension Plans* (GASB 67) and GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB 74), respectively, as amended by GASB Statement No. 92, Omnibus 2020 (GASB 92). For the other types of fiduciary activities, including defined contribution pension and defined contribution benefit OPEB plans, GASB 84, as amended by GASB 92, requires that governments recognize a liability to the beneficiaries in a fiduciary fund only 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. An example of an event that requires no further action, approval or condition is when the State receives taxes on behalf of local governments (see additional examples in the Implementation Guide No. 2019-2, *Fiduciary Activities* question 4.47). The change in liability recognition to the beneficiaries may result in net position balances for custodial funds, which did not report a balance of net position under the guidance for agency funds. Also, it should be noted that liabilities other than those to beneficiaries (for example, those for administrative costs for the fiduciary activity) should be recognized in accordance with existing accrual basis of accounting standards.

The statement of changes in fiduciary net position should report additions to and deductions from, with defined benefit pension and defined benefit OPEB trust funds reporting in accordance with GASB 67 or 74, as amended by GASB 92. Additions should be disaggregated by source, and if applicable, separately display investment earnings and investment costs. Deductions should be disaggregated by type. Unlike agency funds, custodial funds require a resource flow statement because they have a measurement focus. Additionally, GASB 84 allows for custodial funds that receive resources normally held and disbursed within three months, to be reported in one aggregate line in additions and deductions. The descriptions of these aggregate lines should be detailed and indicate the nature of the resource flows. The most common example of this would be a State that receives and disburses taxes to local governments (see additional examples in the Implementation Guide No. 2019-2, *Fiduciary Activities* questions 4.48-4.50).

### Reporting for Fiduciary Component Units

Some fiduciary component units have component units of their own that are only engaged in fiduciary activities. When reported in the fiduciary fund financial statements, GASB 84 provides fiduciary component units should combine their fiduciary activities, by individual fiduciary fund, with those of their own fiduciary component units. This combined information would be aggregated in the primary government's financial statements, in the appropriate fiduciary fund columns. These reporting requirements for fiduciary component units differ from the single column aggregated total roll up of all other component units (as explained in paragraphs 13 and 126 of Statement No. 34, *Basic Financial Statements – and Management's Discussion and*



*Analysis – for State and Local Governments (GASB 34), as amended.* For example, if a discretely presented component unit, such as a university, reports fiduciary funds in the standalone statements, the fiduciary fund statements of this discretely presented component unit would not be included in the primary government's financial statements. However, fiduciary fund financial statements of a component unit that does not issue separate financial statements should be included in the reporting entity's comprehensive annual financial report, as required by paragraph 50 of GASB Statement No. 14, *The Financial Reporting Entity (GASB 14)*. Refer to questions 4.51-4.53 in the Implementation Guide No. 2019-2, *Fiduciary Activities* for additional guidance on reporting fiduciary component units.

To gain additional understanding of GASB 84, please refer to the following resources:

- GASB webpage from which you can access a PDF file of GASB 84 and GASB 95 as well as other GASB pronouncements - [GASB Pronouncements](#)
- Government Finance Review Article - [The Key Guidance in GASB Statement No. 84 Implementation Guide No. 2019-2, Fiduciary Activities](#)

### GASB 84 Implementation

To prepare for implementation of this standard, all entities should begin identifying and reviewing potential assets that are held in a fiduciary capacity as well as meet with staff responsible for managing those assets. Information helpful to evaluate fiduciary activities would include the purpose of the activity/resources, the beneficiaries of the resource, the source of the resources, any agreements or trust documents, legislation or general statutes for the activity, understanding the flow of resources, and how long the resources are held. Additionally, entities should evaluate existing fiduciary funds to ensure proper reporting under GASB 84. To assist with the implementation of GASB 84, the Office of the State Controller has sent a survey to all agencies and institutions to evaluate existing and potential new fiduciary activities.

Additionally, GASB issued an implementation guide for fiduciary activities in June 2019. This guide clarifies, explains and elaborates on the requirements issued in Statement 84 and provides examples on these requirements. It is important that agencies and component units begin evaluating potential fiduciary activities now to allow for sufficient time for implementation at July 1, 2020.

With the implementation of GASB 84, restatements may be required. There will be two types of restatements – fund reclassifications and restatements resulting from the change in measurement focus when converting agency funds to custodial funds.

- A fund reclassification restatement will be a result of the fund being moved from one type of fund to another fund. An example would be if fiduciary activity is reclassified from a private purpose trust fund to a custodial fund. Fund reclassifications will be directed by OSC based on research and information provided by the individual entities.
- The change in measurement focus restatement would result from the difference between how entities recorded liability transactions in custodial funds versus how they were recorded under previous guidance in agency funds. For example, if a government receives money to hold on behalf of a beneficiary, rather than record the amount received as a liability, as would be done in an agency fund, the receipt would be recorded as an addition and any payments to the beneficiary would be recorded as a deduction in the



custodial fund. A liability to the beneficiary would be recognized by the government only when the government is compelled to pay the beneficiary. To determine the restatement, entities will need to determine their liability balances for agency funds as of June 30, 2020 using the new liability recognition criteria under GASB 84. The difference between what is reported in the fiscal year 2020 financial statements for agency funds and the calculated June 30, 2020 GASB 84 liability balances should be the custodial fund restatement.

Additional guidance and examples have been added to Appendix B to assist agencies on how to report/reclassify activities in fiscal years 2020 and 2021, complete the comprehensive annual financial report worksheets for fiscal year 2021, and record restatements.

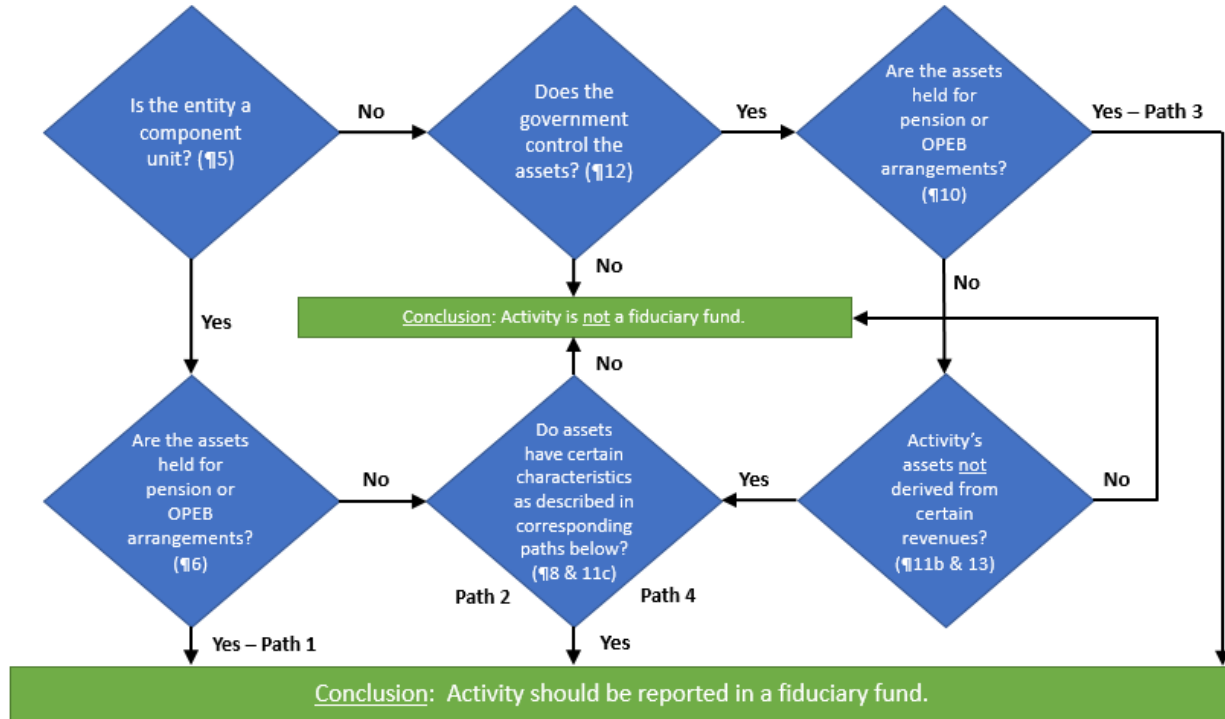
Standalone, legally separate BTAs (such as universities, community colleges, and other component units) with material fiduciary activities will need to present fiduciary fund statements in their separately-issued financial statements with the implementation of GASB 84. These fiduciary fund financial statements will include the Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position. A restatement will be required the first year fiduciary funds are reported in the separately-issued financial statements. Because the fiduciary activities of these BTAs should not be reported in the State's comprehensive annual financial report, these entities must exclude material fiduciary activities from the fiscal year 2020 comprehensive annual financial report packages (i.e. the 905 excel worksheet for universities, Exhibit A for discretely presented foundations and community colleges and the GASB Statement worksheets for nonmajor component units). Examples of activities that could potentially be fiduciary activities under GASB Statement 84 for BTAs include the external portion of an external investment pool, self-sponsored defined contribution pension or OPEB plans (such as 401k or 457 plans), student club/extracurricular accounts, assets held for foundations that are not part of the financial reporting entity (i.e. not discretely presented or blended), and/or LLCs that are outside the BTA's financial reporting entity. We will expect most of the potential fiduciary activities for standalone, legally separate BTAs to be currently reported as funds held for others and/or as part of the investment assets. Additionally, if an entity continued to track fiduciary funds separately after the implementation of GASB Statement No. 34, these funds will need to be re-evaluated to ensure they meet the definition of a fiduciary activity under GASB 84.

Thank you for your time and attention to this important change. OSC will continue to provide updates as the standard is implemented and additional information is obtained. Additional implementation guidance will also be issued for items such as the structural and account changes for the conversion of agency funds to custodial funds, restatement examples and comprehensive annual financial report package worksheet examples. Questions regarding this specific update should be directed to Ellen Rockefeller at 919-707-0528 or [ellen.rockefeller@osc.nc.gov](mailto:ellen.rockefeller@osc.nc.gov).



## Appendix A – Fiduciary Activity Criteria

The following flowchart can be used to assist in determining when an entity should report assets in a fiduciary fund. As mentioned in the FRU, there are four paths to identifying fiduciary activities; each of these paths is depicted in the following flowchart. The four paths and its criteria are further described below the chart.



### Path 1 – Fiduciary component units that are postemployment benefit arrangements

Component Units – those that meet the criteria as prescribed by GASB Statement No. 14, *The Financial Reporting Entity* (GASB 14), as amended – is a fiduciary component unit if they are one of the following arrangements:

- A pension plan that is administered through a trust that meets the criteria in paragraph 3 of GASB Statement No. 67, *Financial Reporting for Pension Plans* (GASB 67)
- An OPEB plan that is administered through a trust that meets the criteria in paragraph 3 of GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB 74)
- A circumstance in which assets from entities that are not part of the reporting entity are accumulated for pensions as described in paragraph 116 of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* (GASB 73)
- A circumstance in which assets from entities that are not part of the reporting entity are accumulated for OPEB as described in paragraph 59 of GASB 74.

*Considerations:* One of the first steps in determining whether an activity is a fiduciary activity is determining if the entity is a component unit as required by GASB 14, as amended. When evaluating, GASB Statement No. 84, *Fiduciary Activities* (GASB 84) has made it clear that pension and OPEB arrangements that are in “qualifying trusts” are considered legally separate

entities for component unit evaluation. “Qualifying trusts” would be those arrangements that meet the criteria outlined in the four bullets above.

Examples and additional considerations for potential fiduciary component units can be found in Implementation Guide No. 2019-2, *Fiduciary Activities* questions 4.1-4.7.

### **Path 2 – Fiduciary component units that are not postemployment benefit arrangements**

Component Units – those that meet the criteria as prescribed by GASB 14, *The Financial Reporting Entity*, as amended – is a fiduciary component unit if the assets are not held for pension and OPEB arrangements but have one or more of the following characteristics:

- The assets are 1) administered through a trust agreement or equivalent arrangement in which the government itself is not a beneficiary, 2) dedicated to providing benefits to recipients in accordance with the benefit terms, and 3) legally protected from the creditors of the government.
- The assets are for the benefit of individuals and the government does not have administrative involvement with the assets or direct financial involvement with the assets. In addition, the assets are not derived from the government’s provision of goods or services to those individuals.
- The assets are for the benefit of organizations or other governments that are not part of the financial reporting entity. In addition, the assets are not derived from the government’s provisions of goods or services to those organizations or other governments.

*Considerations:* A government has administrative involvement with the assets if, for example, it:

- Monitors compliance with the requirements of the activity that are established by the government or by a resource provider that does not receive the direct benefits of the activity,
- 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
- Has the ability to exercise discretion over how assets are allocated.
- Additional examples can be found in the Implementation Guide No. 2019-2, *Fiduciary Activities* questions 4.14, 4.16 – 4.27.

A government has direct financial involvement with the assets, if for example, it provides matching resources for the activities. Additional examples can be found in the Implementation Guide No. 2019-2, *Fiduciary Activities* questions 4.14, 4.16, 4.26, and 4.28.

Examples of assets that benefit individuals or organizations can be found in the Implementation Guide No. 2019-2, *Fiduciary Activities* questions 4.14, 4.16-4.30.

### **Path 3 – Postemployment benefit arrangements that are not component units**

Postemployment benefit arrangements that are not component units are fiduciary if the government controls the assets of the arrangement and the arrangement is one of the following:

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

- A circumstance in which assets from entities that are not part of the reporting entity are accumulated for OPEB as described in paragraph 59 of GASB 74.

A government controls the assets of an activity if:

- The government holds the assets, or
- The government has the ability to direct the use, exchange, or employment of the assets in a manner that provides benefits to the specified or intended beneficiaries.

*Considerations:* In the Statement's Basis for Conclusions, the Board clarifies the fact that a specific group of assets may exist for the benefit of others does not rule out the possibility that the government controls those assets. Additionally, restrictions that stipulate assets can be used only for the purposes described in a custodial agreement or trust agreement do not negate a government's control over the assets.

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. The Board also concluded that just because a government can make the selection of investment options or the determination of benefits that this does not, by themselves, result in a determination that the government controls the assets.

Examples of control can be found in the Implementation Guide No. 2019-2, *Fiduciary Activities* questions 4.8 -4.15, 4.29, 4.31-4.34.

#### **Path 4 – Other Fiduciary Activities**

All other activities are fiduciary if all three of the following are met:

- The government controls the assets (see control criteria in Path 3)
- Those assets are not derived either:
  - Solely from the government's own-source revenues, or
  - From government-mandated nonexchange transactions or voluntary nonexchange transactions with the exception of pass-through grants for which the government does not have administrative or direct financial involvement (see administrative and direct financial involvement criteria above).
- The assets associated with the activity have one or more of the following characteristics:
  - The assets are 1) administered through a trust agreement or equivalent arrangement in which the government itself is not a beneficiary, 2) dedicated to providing benefits to recipients in accordance with benefit terms, and 3) legally protected from the creditors of the government.
  - The assets are for the benefit of individuals and the government does not have administrative involvement with the assets or direct financial involvement with the assets. In addition, the assets are not derived from the government's provision of goods or services to those individuals.
  - The assets are for the benefit of organizations or other governments that are not part of the financial reporting entity. In addition, the assets are not derived from the government's provision of goods or services to those organizations or other governments.

Own-source revenues are revenues that are generated by a government itself. They include exchange and exchange-like revenues (such water and sewer charges), derived tax revenues (such as sales and income tax) and imposed nonexchange revenues (such as property tax).



Additional examples of own-source revenues can be found in the Implementation Guide No. 2019-2, *Fiduciary Activities* questions 4.10-4.12, 4.14, 4.29, 4.35-4.38.

*Considerations:* See Path 2 for considerations on administrative involvement and direct financial involvement.

## Appendix B – Reporting and Restatement Guidance and Examples

### Reporting for Fiscal Year 2020

On May 8, 2020, GASB issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (GASB 95), which postpones certain standards, including GASB Statement No. 84, *Fiduciary Activities* (GASB 84). Based on feedback received from state entities, OSC decided to delay the implementation of GASB 84 (based on the guidance in GASB 95) to fiscal year 2021. Entities that have recorded activity under the new GASB 84 guidance in fiscal year 2020 will need to reclassify that activity at June 30, 2020 to report this activity under pre-GASB 84 guidance. This means entities should report their agency funds such that assets equal liabilities; no additions (revenues) or deductions (expenses) should be reported to these funds in fiscal year 2020. Also, no restatements should be recorded in fiscal year 2020 for the implementation of GASB 84. Additionally, standalone BTA's that have identified material fiduciary activities should not present fiduciary fund statements in their separately issued financial statements in fiscal year 2020.

If additions and deductions have been recorded during fiscal year 2020 for agency funds, entries are needed to reclassify the activity to liability accounts. To determine what activity needs to be reclassified, agencies can review their year-end trial balances, DSS 54F reports or NCAS GL screen 220 to analyze the entries made to their agency fund addition and deduction accounts in fiscal year 2020.

The screen shots below are examples of how an agency can pull up this information:

Account Number	Account Description	Prior Month Ending Balance	Month to Date Net	Current Month Ending Balance
<b>R70 OSC - NC FLEX</b>				
<b>GASB 3900 AGENCY FUNDS-DEPT</b>				
111260	POOL CSH-BUDGET CODE CSH	11,005,547.02	211,665.86	11,217,212.88
Total Class 1		11,005,547.02	211,665.86	11,217,212.88
217190	FUNDS HELD FOR OTHERS	-5,884,997.37	0.00	-5,884,997.37
Total Class 2		-5,884,997.37	0.00	-5,884,997.37
436161	PARTICIPANT CONTRIBUTIONS	-57,271,575.85	-211,665.86	-57,483,241.71
Total Class 4		-57,271,575.85	-211,665.86	-57,483,241.71
535971	PAYMENTS UNDER CUSTODIAL	52,151,026.20	0.00	52,151,026.20
Total Class 5		52,151,026.20	0.00	52,151,026.20
Total 3900 AGENCY FUNDS-DEPT		0.00	0.00	0.00

**CAFR 54F (Statement of Changes in Fiduciary Net Position)**

**Fiduciary Funds**

MDC: ncgov Updated: 05/12/2020 2:51:31 AM

Report Format 03/19/2020

[Fru Nbr] [All GASB Numbers] [GAAP Fund Type] [All Accounts] [All Expenditure Functions] [Expense & Revenue Functions] [All Revenue Categories] [All Budget Codes] [FY 2020] [May] YTD ACTUAL

	3900 AGENCY FUNDS-DEPT
	R70 OSC - NC FLEX
<b>ADDITIONS:</b>	
. Contributions:	
. Participant deposits	57,483,241.71
. Total contributions	57,483,241.71
. Other additions	
. <b>TOTAL ADDITIONS</b>	<b>57,483,241.71</b>
<b>DEDUCTIONS:</b>	
. Pay in accord w/custodial agree	52,151,026.20

Note: Reports should be run at the end of the year to ensure all activity is captured; this is for illustration purposes only

GL POSTED ENTRY QUERY 222

NEXT FUNCTION: \_\_\_\_\_ ACTION:  
NO MORE TRANSACTIONS FOR THIS SELECTION

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PAGE F/B: \_ PAGE NO: 101

COMPANY: R700

DISPLAY FULL	ACCOUNT	CNTR	EFF DATE	SOURCE CODE	TRANSACTION AMOUNT	
436161	6185		05/07/2020	*9EHA02698	1,081.98	CR
436161	6185		05/07/2020	*9EHA02699	609.30	CR
436161	6185		05/07/2020	*9EHA02700	425.00	CR
436161	6185		05/07/2020	*9EHA02701	410.00	CR
436161	6185		05/07/2020	*9EHA02702	351.67	CR
436161	6185		05/07/2020	*9EHA02703	222.66	CR
436161	6185		05/07/2020	*9EHA02704	150.00	CR
436161	6185		05/07/2020	*9EHA02705	143.75	CR
<b>ACCUM TOTALS DR:</b>			219,374.80	<b>CR:</b>	57,702,616.51	

DISPLAY	ACCOUNT	CNTR	EFF DATE	SOURCE CODE	TRANSACTION AMOUNT
535971	6185		04/30/2020	*9EDA02296	8,647.06
535971	6185		04/30/2020	*9EDA02297	6,704.30
535971	6185		04/30/2020	*9EDA02298	5,581.84
ACCU TOTALS DR:		53,387,630.07	CR:	1,236,603.87	

All addition and deduction activity in these agency funds need to be reclassified to liability accounts; the activity in these addition and deduction accounts should net to zero for each individual account. Examples for how to reclassify addition and deduction accounts are below.

**Example:** Agency R7 has recorded activity in fiscal year 2019-2020 based on guidance in GASB 84. Agency R7 will need to reclassify this activity based on changes as a result of delaying the implementation of GASB 84 to fiscal year 2021. At the end of the year, agency R7 reviews their reports to determine what needs to be reclassified. Using the screen shots above, agency R7 determines there was a \$57,483,241.71 balance in account 436161, Participant Contributions and \$52,151,026.20 balance in account 535971, Payments Under Custodial Agreements.

To reclassify the \$57,483,241.71 activity in account 436161, the agency will need to prepare the following entry:

1. Use 6/30/2020 effective date.
2. Use accounting rule 31.
3. Use a 31 doc ID.

Account Name	NCAS Number	Debit	Credit
Participant Contributions	436161	\$57,483,241.71	
Funds held for others	217190		\$57,483,241.71

To reclassify the \$52,271,575.85 activity in account 535971, the agency will need to prepare the following entry:

1. Use 6/30/2020 effective date.
2. Use accounting rule 31.
3. Use a 31 doc ID.

<b>Account Name</b>	<b>NCAS Number</b>	<b>Debit</b>	<b>Credit</b>
Funds held for others Payments in Accordance with Custodial Arrangements	217190	\$52,271,575.85	
	535971		\$52,271,575.85

**To properly report this activity, an agency cannot combine these two entries and net the debit and credit liability activity.** After these entries have been made, assets should equal liabilities. Entities need to verify this prior to submitting their CAFR package for fiscal year 2020.

## Reporting for Fiscal Year 2021

Agencies must change how they record their activities in their custodial funds (previously reported as agency funds) with the implementation of GASB 84. Beginning July 1, 2020, agencies with custodial funds should report additions (revenues) and deductions (expenses). OSC strongly encourages agencies to begin recording transactions under this manner at the beginning of fiscal year 2021 and not waiting until the middle or end of the fiscal year; this will eliminate the need for year-end reclassifications or elimination entries.

For fiscal year 2021, OSC has added new accounts for agencies with custodial funds to report their additions and deductions – see below. Additional accounts have been established specifically for custodial funds held for 3 months or less – see below. These new accounts should be used to record activity for your custodial deposits and disbursements. The new accounts, listed below, are in addition to other fiduciary fund addition and deduction accounts. Agencies should review the CAFR 54F table to ensure there are appropriate accounts and captions to correctly reflect the type of transactions being recorded.

### New Accounts to Report Additions and Deductions

New accounts for custodial funds:

<b>436161</b>	<b>Participant Deposits</b> - Used by custodial funds to record receiving of assets that will be held in a custodial capacity for others.
<b>535971</b>	<b>Payments in Accordance with Custodial Arrangements</b> - used by custodial funds to account for the disbursement of assets held in a custodial capacity in accordance with the agreements.

New accounts for custodial funds that hold assets for three months or less (for specific agencies):

<b>436162</b>	<b>Property Tax Collections for Local Governments</b> - used by custodial funds for property tax collections for local governments that will be held for 3 months or less.
<b>535972</b>	<b>Payments of Property Tax to Local Governments</b> - used by custodial funds for payments of property tax collections to local governments that will be disbursed within 3 months or less.
<b>436163</b>	<b>Child Support Deposits</b> – used by custodial funds for child support deposits that will be held for 3 months or less.
<b>535973</b>	<b>Payments in Accordance with Child Support Agreements</b> – used by custodial funds for payments in accordance with child support agreements that will be disbursed within 3 months or less.
<b>436164</b>	<b>Sales and Use Tax Collections for Local Governments</b> – used by custodial funds for sales and use tax collections for local governments that will be held for 3 months or less.
<b>535974</b>	<b>Payments of Sales and Use Tax to Local Governments</b> – used by custodial funds for payments of sales and use tax collections for local governments that will be disbursed within 3 months or less.



Additionally, agencies should analyze the activity in the liability accounts for custodial funds from July 1, 2020 until the agency starts recording additions and deductions as discussed above. Liabilities should only be recognized when an event has occurred that compels the government to disburse fiduciary resources – additional guidance is in the FRU. If liabilities have been recorded during fiscal year 2021 not using the new liability recognition criteria, entries are needed to reclassify the activity to additions and deductions. To determine what activity needs to be reclassified, agencies should go to NCAS GL screen 220 and analyze the entries made to custodial fund liability accounts in fiscal year 2020. The screen shot below is an example of how an agency can pull up this information by entering company number, account number, center number (if necessary) and date ranges.

```

GL                                POSTED ENTRY QUERY                                220

NEXT FUNCTION: _____ ACTION: _____

=====

PLEASE ENTER Y AFTER DISPLAY TYPE  SHORT ENTRY: _  FULL ENTRY: _

PLEASE ENTER COMPANY: 6701

PLEASE ENTER AT LEAST ONE OF THE FOLLOWING
ACCOUNT: 217190
CNTR: _____
SOURCE CODE: _____

THE FOLLOWING ARE OPTIONAL          FROM          THROUGH
EFFECTIVE DATE: 07/01/2019        03/31/2020
POSTING DATE: _____
ENTRY AMOUNT: _____
  
```

After pressing the enter key, entries that meet the search criteria will be displayed on screen 222 – example below.

```

GL                                POSTED ENTRY QUERY                                222

NEXT FUNCTION: _____ ACTION: _____
NO MORE TRANSACTIONS FOR THIS SELECTION
=====
PAGE F/B: _____ PAGE NO: 1
COMPANY: 6701
DISPLAY          ACCOUNT          CNTR          EFF          SOURCE          TRANSACTION
FULL            DATE          CODE          AMOUNT
217190          6100          09/04/2019   *8IDA10622     20,000.00    CR
217190          6100          11/15/2019   *8K0A04221     20,000.00    CR
217190          6100          02/03/2020   *9BCA11983     10,000.00    CR
217190          6100          03/06/2020   *9CIA08738     500.00       CR
217190          6100          03/10/2020   *9CKA07814     500.00       CR
217190          6100          03/10/2020   *9CKA07815     500.00       CR

ACCUM TOTALS DR:          500.00  CR:          51,000.00
  
```

Agencies can then analyze the activity in their liability accounts and determine if they should have recorded these as additions and deductions. If the activity should have been recorded as an addition and/or deduction instead of a liability, the agency will need to do a reclassification entry; examples are below.

**Example:** Agency 67 determines all of the activity recorded in account 217190 for FY20 needs to be reclassified to additions and deductions accounts. Credits to the liability accounts are money received from the agency's custodians. Debits to the liability accounts are payments made to the agency's custodians. Using the screen shot above, the agency determines there is \$51,000.00 of credit activity and \$500.00 of debit activity to account 217190.

To reclassify the \$51,000 credit activity, the agency will need to do the following entry:

1. Use a current month date in FY21.
2. Use accounting rule 31.
3. Use a 31 doc ID.

<b>Account Name</b>	<b>NCAS Number</b>	<b>Debit</b>	<b>Credit</b>
Funds held for others	217190	\$51,000.00	
Participant Deposits	436161		\$51,000.00

To reclassify the \$500 debit activity, the agency will need to do the following entry:

1. Use a current month date in FY21.
2. Use accounting rule 31.
3. Use a 31 doc ID.

<b>Account Name</b>	<b>NCAS Number</b>	<b>Debit</b>	<b>Credit</b>
Payments in Accordance with Custodial Arrangements	535971	\$500.00	
Funds held for others	217190		\$500.00

**To properly report the activity, agencies cannot net the debit and credit liability activity.**

## **Restatements**

Restatements may be required with the implementation of GASB 84; **OSC anticipates agencies with custodial funds will have restatements.** There are two types of restatements with the implementation of GASB 84: 1) fund reclassifications, and 2) restatements resulting from the change in measurement focus when converting agency funds to custodial funds. The two types of restatements are further described below with implementation guidance and examples.

### **Fund Reclassifications**

GASB fund reclassifications are a result of a fund being moved from one GASB fund type to another GASB fund type. For example, a general fund (GASB 1102) being reclassified to a custodial fund (GASB 39xx) or an investment trust fund (GASB 34xx) being reclassified to a custodial fund (GASB 39xx). These types of reclassifications are directed by OSC.

Fund reclassifications do not require entries to be made to the general ledger by the agency; this is unlike other restatements, in which an entry is recorded to account 320001 or 330001. The fund reclassifications are recorded by OSC making changes to the master table records, specifically by changing the GASB number associated with each budget fund.

To determine the amount of the restatement for the fund reclassifications, the agency takes the difference between the prior year Fund Equity June 30 and the current year Fund Equity – July 1, as previously stated amounts on the DSS reports. This amount should be reported on the new 430F CAFR worksheet – Restatements Fiduciary Activities in the 2021 year-end CAFR package. Note: since most of the GASB 84 reclassifications are moving all the budget funds associated with the old GASB fund, the Fund Equity – July 1, as previously stated amounts will not populate on the DSS reports because these reports do not populate if the amounts are zero. This will be illustrated in the example below.

**Example:** The external portion of the State Treasurer Investment Pool is being reclassified from an investment trust fund GASB type (GASB 3400) to a custodial fund GASB type (GASB 3919). How does the agency determine the amount of the restatement to be reported on the 430F worksheet and what should be reported on the new worksheet?

The screen shot below illustrates the information needed to be obtained for the prior year Net position – June 30.

CAFR 54F (Statement of Changes in Fiduciary Net Position)  
 Fiduciary Funds  
 MDC: 07xgov Updated: 04/10/2020 2:03:26 AM  
 Report Format 03/19/2020

[07 State Treasurer] [All GASB Numbers] [GAAP Fund Type] [All Accounts] [All Budget Codes] [ARRA] [FY 2019] [13th Period] YTD ACTUAL

	Investment Trust	3400 STATE TREASURER INVEST. POOL I
<b>ADDITIONS:</b>		
. Investment income:		
. Investment earnings	55,652,016.92	13,733,922.92
. Less investment expenses	100,720.00	0.00
. Net investment income	55,551,296.92	13,733,922.92
. Pool's share transactions:		
. Reinvestment of distributions	55,551,296.92	13,733,922.92
. Net share purchases (redemption)	-26,169,166.86	-44,315,978.86
. Total pool's share transactions	29,382,130.06	-30,582,055.94
. Other additions		
<b>DEDUCTIONS:</b>		
. Distributions paid and payable	55,551,296.92	13,733,922.92
<b>NET POSITION - END OF YEAR</b>	<b>1,349,346,268.72</b>	<b>666,888,243.98</b>

Note: For the implementation of GASB 84, this report should be run for FY2020; this is for illustration purposes only

Below is an example of what the report looks like when trying to pull the July 1, as previously stated amount. Since the entire fund is moving, nothing is displayed on the report because DSS does not report zero amounts. Therefore, the difference between the June 30, 2019 ending balance and July 1, as previously stated amount is (\$666,888,243.98) – the amount to be reported on the 430F worksheet.

CAFR 54F (Statement of Changes in Fiduciary Net Position) Fiduciary Funds MDC: 07xgov Updated: 04/10/2020 2:03:26 AM Report Format 03/19/2020	
[07 State Treasurer] [All GASB Numbers] [GAAP Fund Type] [All Accounts] [All Budget Codes] [ARRA] [FY 2020] [Fiscal Period] YTD ACTUAL	
	<b>Custodial</b>

no investment trust funds



Note: For the implementation of GASB 84, this report should be run for FY2021; this is for illustration purposes only

Below is an example of the 430F worksheet based on information above. On the restatement worksheets, if the fund equity is increasing, enter it as a positive number. If the fund equity is decreasing, enter the amount as a negative number. In this example, the reclassification is moving it from GASB 3400 and therefore reducing the net position and should be entered as a negative. Additionally, this is being reclassified to another fiduciary activity, GASB 3919, and increasing the net position; therefore the amount associated with GASB 3919 was entered as a positive number.

Office of the State Controller

2020 CAFR Worksheets

RESTATEMENTS Fiduciary Activities (430F)

Part 1 of 1 for Fiduciary Activities Fund Equity Restatements

Agency No:	07	Agency Name:	North Carolina General Assembly
GASB Fund No:	3xxx	Preparer/Phone:	
		Email:	-

Complete the following schedule for any GASB fund that has restated numbers.

Fiduciary Activities:

GASB Fund Number	GASB	Other	Explanation
	Reclassification	Change in	
	Change in	Change in	
	July 1, 2019	July 1, 2019	
	Fund Equity	Fund Equity	
			GASB 84 - Change in measurement focus restatement (see calculation below)
3400	(666,888,243.98)		GASB 84 - Fund Reclassification
3919	666,888,243.98		GASB 84 - Fund Reclassification
Totals	0.00	0.00	
	Total GASB Reclass	Total Other	Total restatements in "Other" should tie back to "restatements" caption on the 54F.

For these reclassifications, the total of all of your GASB reclassifications on worksheets 430G, 430BTA and 430F (across all GASB types) should net to zero.

For the GASB 84 reclassifications, we will provide how and what to report on the 430F worksheet, but the agency should verify that this information is correct when they are completing their CAFR package and reviewing their DSS reports.

**Restatements resulting from the change in measurement focus**

With the implementation of GASB 84, agencies will need to follow the new liability recognition criteria that will likely result in a restatement. GASB 84 requires that governments recognize a liability to the beneficiaries in a fiduciary fund only when an event has occurred that compels the government to disburse fiduciary resources. To determine the restatement, agencies will need to determine the new liability balance as of June 30, 2020 using the GASB 84 liability recognition criteria. The difference between the liability balance reported at June 30, 2020 under the previous guidance and the new liability balance as required for GASB 84 will be the amount of the restatement.

To assist agencies, a restatement calculation formula was added to the bottom of the 430F worksheet; this calculation is required to be completed by all agencies that report custodial funds.

**Example:** Agency 67 reported \$6,000 in liability account 217190 – Funds Held for others at June 30 (obtained from DSS report). After evaluating the new liability criteria and reviewing the requests to disburse funds, Agency 67 determined no events had occurred at the end of the prior year (June 30, 2020) that would have compelled them to disburse the custodians' fiduciary funds. Therefore, the liability balance that should have been reported at June 30 is \$0.

**CAFR 11F (Statement of Fiduciary Net Position)  
Fiduciary Funds**

MDC: 67xgov Updated: 04/10/2020 2:58:49 AM  
Report Format 03/06/2020

[67 Office of Admin. Hearings] [All GASB Numbers] [GAAP Fund Type] [All Accounts] [All Budget Codes] [ARRA] [FY 2019] [13th Period] YTD ACTUAL

	Custodial
<b>ASSETS</b>	
. Pooled cash	6,000.00
<b>TOTAL ASSETS</b>	<b>6,000.00</b>
217190 FUNDS HELD FOR OTHERS	6,000.00
<b>TOTAL LIABILITIES</b>	<b>6,000.00</b>

Note: For the implementation of GASB 84, this report should be run for FY2020; this is for illustration purposes only

Using the information above, that data was entered into the formula at the bottom the worksheet. Since no liabilities should have been reported for June 30, the restatement is the entire amount of the liability balance. Once the information is entered in the calculation cell, the restatement will automatically populate into the 430F worksheet table.

GASB Fund Number	GASB		Explanation
	Reclassification Change in July 1, 2019 Fund Equity	Other Change in July 1, 2019 Fund Equity	
3900		6,000.00	GASB 84 - Change in measurement focus restatement (see calculation below)
			GASB 84 - Fund Reclassification
			GASB 84 - Fund Reclassification
Totals	0.00	6,000.00	
	Total GASB Reclass	Total Other	Total restatements in "Other" should tie back to "restatements" caption on the 54F.
<b>GASB 84 Restatements</b> - there are two types of restatements with the implementation of GASB 84: 1) fund reclassifications and 2) restatements resulting from the change in measurement focus when converting agency funds to custodial funds. Additional information can be found in the 2020 CAFR worksheet instructions.			
1) The GASB reclassifications are a result of the fund being moved from one GASB fund type to another GASB fund type. GASB reclassifications are directed by OSC and information was provided to your agency on how and what to report on this worksheet.			
2) Restatements for the change in measurement focus are a result of the new liability recognition criteria for custodial funds. Restatements resulting from the change in measurement focus should be reported in the Other column and must tie back to the "restatements" caption on the 54F.			
<b>Restatement Calculation</b> - To determine the restatement for the change in measurement focus, your agency will need to determine the new liability balance as of June 30, 2019 using the GASB 84 liability recognition criteria. The difference between the liability balance reported at June 30, 2019 under the previous guidance and the new liability balance as required for GASB 84 will be the amount of the restatement. <b>Agencies with custodial funds (GASB 39xx) must complete the calculation below, the restatement will automatically populate in the table above.</b>			
	6,000.00	Liability balance as of June 30, 2019	
	-	less: GASB 84 liability balance as of June 30, 2019	
	6,000.00	Restatement	



To record the restatement for the change in measurement focus, the agency will need to do the following entry:

1. Use 6/30/2021 effective date.
2. Use accounting rule 31.
3. Use a 31 doc ID.

<b>Account Name</b>	<b>NCAS Number</b>	<b>Debit</b>	<b>Credit</b>
Funds held for others	217190	\$6,000.00	
Restatement	330001		\$6,000.00

Although the use of agency funds has been eliminated with GASB 84 and replaced with custodial funds, the GASB # (i.e. 39xx) associated with these funds will not change. However, the net position account number will change from 32NONO to 330000 so agencies will be able to report a net position; the changes to the net position account number have been programmatically updated by OSC.

## Appendix C – Component Unit Q & A

In the questions below, we are using a university as an example. These questions apply to all entities that report as stand-alone BTA's.

Q1. How should a university present a GASB-basis blended component unit (e.g., a Foundation) that reports fiduciary activities in their financial statements?

A1. For a GASB-basis blended component unit that reports fiduciary activities in their stand-alone financial statements, the blended component unit's fiduciary activities should be reported in the University's fiduciary fund financial statements, aggregated with the Universities' fiduciary funds.

Q2. How should a university present a discretely presented component unit (e.g., a Foundation) that reports fiduciary activities in their stand-alone financial statements?

A2. For a discretely presented component unit that has fiduciary activities and presents stand-alone financial statements, the discretely presented component unit's fiduciary activities would **not** be presented in the University's fiduciary fund financial statements. However, if the discretely presented component unit **does not** present stand-alone financial statements, then the discretely presented component unit's fiduciary activities should be reported in the University's stand-alone financial statements (materiality considered). This is further discussed in the Basis of Conclusion section of GASB 84, paragraph B44.

Q3. If the University sponsors an external investment pool, what reporting changes are required with the implementation of GASB 84?

A3. With the implementation of GASB 84, external portions of external investment pools are considered a fiduciary activity and should be reported in the University's fiduciary fund financial statements. This external portion is the portion for legally separate entities that are not component units of the University. If the assets are held in trust, based on the criteria in GASB 84, the external portion of the pool will be reported as an investment trust fund (GASB 84, paragraph 16 and Implementation Guide No. 2020-1, question 5.3). If the assets are not held in trust, the external portion of the investment pool should be reported in a separate external investment pool fund column within the custodial funds classification in the University's fiduciary fund basic financial statements. (GASB 84, paragraph 18 and Implementation Guide No. 2019-2, questions 4.40 and 4.43). If more than one external investment pool is administered and none of the pool's assets are held in trust, the external portions of the investment pools would be combined and reported in a single external investment pool fund column within the custodial funds classification in the fiduciary fund basic financial statements. (GASB Implementation Guide No. 2019-2, question 4.43).

The internal portion (the University's own resources) of the investment pool's balances will remain in the University's Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position. (GASB Implementation Guide No. 2020-1, question 4.3). If discretely presented component units (DPCUs) participate in the external investment pool, the

DPCU will report its portion of the investment pool's balances in the DPCU's financial statements in the University's stand-alone report.

Q4. Will changes be required to the Summary of Significant Accounting Policies note disclosures?

A4. The financial reporting entity could now include three different component unit classifications – blended component units, discretely presented component units and fiduciary component units. Universities need to review and update these note disclosures when describing their reporting entity. For example, if an external investment pool was previously reported as a blended component unit but under GASB 84, it is a fiduciary component unit then a change will be required in the Summary of Significant Accounting Policies note disclosures. This would also change the blended component unit note.

Q5. With the implementation of GASB 84, what reporting changes are needed in the 905 annual package worksheet submitted to OSC? Are there any other considerations?

A5. If a university has material fiduciary activities, the fiduciary activities will be reported in separate fiduciary fund exhibits in the University's stand-alone financials. The activity reported in these fiduciary fund financial statements will not be reported in the State's annual report. Therefore, this fiduciary activity should not be reported in the 905 worksheet. The 905 worksheet should agree to the university's Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position.

There is one other consideration for the annual report package – universities that operate external investment pools and the information disclosed on the 710 investments worksheet. For those universities, there could be a new variance on the 710 worksheet. If the university operates an external investment pool, all investments of this pool will be reported on the 710 worksheet; however, the external portion of this investment pool will not be reported in the university's financial statements on the 905 worksheet. These investments will be reported in a fiduciary fund (investment trust fund or custodial fund) of the university. Also see Q & A number 3 above.

If other fiduciary funds of the university, not the external portion of external investment pools, have investments, these investments will not be reported on the 710 worksheet for the annual report and should equal the 905. However, these investments will be disclosed in the university's stand-alone financial statement note disclosures.

Q6. Will the movement of fiduciary funds from the Statement of Net Position (SNP) and Statement of Revenues, Expenses and Changes in Net Position (SRECNP) to the Statement of Fiduciary Net Position (SFNP) and Statement of Changes in Fiduciary Net Position (SCFNP) change the GASB 39 determination (i.e., should the university combine the assets and revenues reported on both SNP and the SFNP as well as the SRECNP and the SCFNP for this determination)?

A6. Yes, the GASB 39 determination will change with the implementation of GASB 84. When the university determines the significance of GASB 39 entities, the university should not include the Statement of Fiduciary Net Position and the Statement of Changes of Fiduciary Net Position with university's SNP and SRECNP. The determination should be based only on the university's Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position. The reason for this is the fiduciary assets and revenues held and earned by these custodians/trustees are not the university's assets and revenues. Therefore, if the university has material fiduciary activities, the expectation is the university's GASB 39 significance threshold will decrease since the fiduciary activities' revenues and assets are removed from the SNP and SRECNP.

Q7. If a potential component unit is not considered a discretely presented component unit (DCPU) because it does not meet the 5% threshold established for significance, should the investments held on their behalf in the external investment pool be considered external for fiduciary statement purposes?

A7. If the university determines that the potential DPCU is not significant, then the reporting for this entity would be that it is a non-related entity, i.e., not part of the University's financial reporting entity. Therefore, the university should report this non-related entity's investments in the external portion of the external investment pool. This external portion should be presented in a fiduciary fund as either an investment trust fund or custodial fund of the university. Also see Q & A number 3 above.