

## What New Jersey School Districts Need to Know About GASB 84

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The implementation of Governmental Accounting Standards Board Statement 84, *Fiduciary Activities* (GASB 84), which requires compliance by June 30, 2021, will create challenges and significantly impact the accounting and reporting requirements of New Jersey school districts.

GASB 84 establishes specific criteria for identifying fiduciary activities based primarily on whether the school district is controlling the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists. If the activity is not a “fiduciary activity,” then it is a “governmental activity.” The school district must examine its current fiduciary funds and determine if they meet the terms and conditions, as set forth by GASB 84. Key distinguishing factors of each activity include:

- A *fiduciary activity* greatly limits the amount of control and oversight a school district may exercise.
- A *governmental activity* considers funds as public school funds and subject to the related laws, regulations, Board policies and administrative regulations.

### Analysis of “Other Fiduciary Activities”

One of the three types of fiduciary activities that must be analyzed includes “other fiduciary activities.” This includes student activity accounts, scholarships and the unemployment trust fund. Under the new definitions established by GASB 84, to be recorded as a fiduciary activity, the asset:

- Must be controlled by the school district, such as maintained in a bank account in the school district’s name.
- Cannot be derived from revenues generated by the school district, such as state aid and grants.
- Cannot be derived from government-mandated or voluntary non-exchange transactions, such as from property taxes.

Additionally, the asset must be held either:

- In a qualifying trust for which the school district is not the beneficiary, legally protecting it from creditors and dedicated to providing benefits to recipients;
- For the benefit of individuals or groups of individuals (e.g., student activity groups/clubs) without the school district’s administrative involvement or direct financial involvement;
- For the benefit of an outside organization that is not part of the school district’s reporting entity.

Since the school district cannot have administrative involvement or direct control over the assets, all of the commonly used “other fiduciary activities” (student activity accounts, scholarships and the unemployment trust fund) that currently reside in the fiduciary funds (Trust and Agency Funds 80 and 90) would not meet the new definition of fiduciary type activities, as described by GASB 84 and must be reported in a governmental fund.

The reason for this is that administrative involvement entails monitoring and confirming compliance of the activity based on the school district’s policies, determining eligible expenditures or making a decision on the allocation of assets. Currently, most school districts have implemented strict guidelines in the district’s standard operating procedures manual to safeguard the assets that resided in these funds. Unfortunately, in most cases, these same strict guidelines, oversight and control now prohibit these assets from being classified as fiduciary funds. Consequently, these activities will need to be reported in a governmental fund.

**Special Revenue Fund Reporting** – Since revenue sources from student activity funds and scholarships are restricted for specific purposes, they should be reported in the special revenue fund.

**General Fund Reporting** – The revenue sources of the unemployment fund are a combination of employee and district contributions that are restricted to pay current and future unemployment claims. Because there are both employee and employer contributions associated with payment of these claims, this activity cannot be accounted for in the special revenue fund. Rather, it will be reported in the general fund and include employee contributions as a liability, and district contributions will be applied against restricted fund balances. Claims paid will reduce the liability and any excess claims will reduce the restricted fund balance. Lastly, payroll agency and flexible spending accounts will also be reported in the general fund and any unremitted balances at June 30 will be reported as a liability.

## Next Steps

- Identify an activity as fiduciary, then determine the “fund type,” which will drive the reporting. GASB 84 defines four different types of fiduciary funds:
  1. Pension and other employee benefit trust funds
  2. Investment trust funds
  3. Private purpose trust funds, and
  4. Custodial funds

The first three fiduciary funds are existing fund types, as defined by GASB Statement 34. The custodial fund category is new and the traditional agency funds have been eliminated.

- Governments with activities meeting the new criteria of a “fiduciary fund” should present a statement of fiduciary net position that includes assets, deferred outflows, liabilities, deferred inflows and net position of fiduciary activities. A statement of changes in fiduciary net position will also be required and should present activity as additions and deductions to net position and changes in fiduciary net position. After the implementation of GASB 84, the custodial funds will, for the first time, report a statement of changes in net position. The former agency fund type resulted in a balance sheet on which assets always equaled liabilities. In custodial funds, this won’t always be the case and there could be net position reported within a custodial fund.

Note that there are two other types of fiduciary activities addressed in GASB 84: certain pension and OPEB arrangements. However, since New Jersey statute and administrative code prohibit school districts from establishing and funding trust funds for these activities, they are not addressed in this article.

Finally, we recommend considering an update to the school district’s standard operating procedures manual to address the effects of GASB 84 to ensure no policy or procedure is in conflict with this new standard.

As you implement GASB 84, you will find it completely changes how New Jersey school districts view the former trust and agency fund, to the point that there may no longer be any activity reported in these fiduciary funds.

## Contact Us

If you have any questions or need assistance, please contact your PKF O’Connor Davies Partner or:

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