GASB No. 84 and 97 – Fiduciary Activities, Component Unit Criteria and 457 Plans

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Government Accounting Standards Board (GASB) Statement No. 84, issued in January 2017, turned out to be a sleeper standard. Initially what seemed to be minor changes ended up having the potential for sweeping changes in the reporting of pension and OPEB plans in pension and OPEB trust funds. GASB Statement No. 97, issued in June 2020, modified/clarified certain provisions of GASB 84, most notably the classification and reporting of Internal Revenue Code Section 457 deferred compensation plans. An overview of GASB 84 and GASB 97 follows.

GASB No. 84, Fiduciary Activities

GASB 84 had two major objectives – to improve guidance regarding the identification of fiduciary activities and how those activities should be reported.

The Statement requires the removal of agency funds and the addition of custodial funds to fiduciary fund types. Custodial funds are used to report fiduciary activities not required to be reported in the other three fund types: (1) pension and other employee benefit trust funds, (2) investment trust funds, and (3) private-purpose trust funds. Unlike agency funds, custodial funds are required to report net position. Additions to and deductions from custodial funds are now required to be reported on the Statement of Changes in Fiduciary Net Position.

GASB 84 also modified the definitions of fiduciary activities and provided a path to make the determination of which assets to report in a fiduciary fund.

Under the provisions of this Statement, most defined contribution pension plans [including most 401(a) plans] would be considered component units of the primary government and would be required to be included in the government's financial statements as pension trust funds.

After the issuance of GASB 84, a large number of governments expressed concern about the costs of implementing GASB 84 as it related to reporting defined contribution plans as fiduciary component units. In addition, the reporting of 457 and other deferred compensation plans needed to be addressed.

The provisions of GASB 84, as postponed by GASB 95, are effective for the fiscal year ending June 30, 2021.

GASB No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans [an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32]

In June 2020, GASB Statement No. 97 was issued. It modified some of the component unit criteria and contained guidance for the classification and reporting of 457 plans.

Under previous guidance, 457 plans were not considered pension plans. GASB 97 supersedes the previous guidance and states that a 457 plan should be classified as a pension plan if it meets the definition of a pension plan in GASB 67. 457 plans not meeting this definition should be classified as other employee benefit plans. Once appropriately classified, the government will need to determine whether the 457 plan should be reported as a fiduciary activity. 457 plans that are determined to be pension plans must apply the appropriate pension standards.

In most cases, 457 plans will be determined to be defined contribution pension plans. Defined contribution pension plans:

- Provide individual accounts for each plan member
- Define required employer contributions, and
- Provide pension distributions to plan members which depend only on the contributions to and investment earnings of the plan member's account

457 plan documents are generally similar; however, governments will need to review their specific plan documents for these criteria.

GASB 97 also modifies the component unit criteria, providing an exception for defined contribution plans. The end result is that most defined contribution plans will not be considered fiduciary component units. If a defined contribution plan is not considered to be a component unit, the determination of whether to report the plan as a pension trust fund hinges on whether the government controls the assets of the plan. In the case of most 401(a) and 457 plans, the government does not control the assets, as these assets are generally held in a trust overseen by a separate trustee, where the employee then directs the investment of the assets. As a result, most defined contribution plans will not be reported as a pension trust fund in the government's financial statements; however, governments will need to review their specific plan documents to determine the proper reporting requirements.

For 403(b) plans, the determination is simpler than other plans as these are not held in a trust. The account is owned by the employee; therefore, the government does not control the assets.

The provisions of GASB 97 as they relate to 457 plans are effective for the fiscal year ending June 30, 2022 with earlier application encouraged.

The provisions of GASB 97 as they relate to the defined contribution plan exceptions are effective immediately.

Prepare Now

Governmental entities should:

- Review plan documents to determine if changes are needed to the current financial report
- Discuss conclusions with the audit firm to determine the impact on audit requirements
- Obtain plan activity and asset statements and any necessary information for financial statement disclosures

Contact Us

If you need assistance in determining whether or not changes need to be made in your governmental entity's financial reports due to GASB 84 and 97, please contact your PKF O'Connor Davies' client engagement partner or either of the following:

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