Trust and Agency (Fiduciary) Funds

Summary of Interfund–GCA–GLTL Accounting

Chapter 12
Learning Objectives

- Understand & discuss the circumstances when funds are used
- Define and distinguish among the four types of funds
- Prepare basic journal entries
- Prepare Agency Fund financial statements
- Prepare Trust Fund financial statements
- Account for common transactions affecting more than one fund and GCA and GLTL accounts
Fiduciary Funds used when

... government holds resources in a trust or agency capacity for the benefit of others.
Funds held in fiduciary capacity for

- Government or its programs – endowment to finance research program or maintain recreational area
- Others, including individuals, other governments, or private organizations
Examples of external fiduciary relationships

- Pension plans
- External investment pools
- Endowments to finance scholarships for residents of government
- Taxes, insurance premiums, & dues withheld from employees pay to be transferred to others
- Taxes collected for other governments
May use other funds to account for fiduciary relationships

- Special Revenue Fund – resources available for expenditures
- Permanent Fund – maintenance of principal required
- Enterprise Fund – special business-type activities
Accountability Focus

- On the government’s fulfillment of its fiduciary responsibilities during a specified period and on remaining responsibilities at the end of the period.
- Difference in assets and liabilities typically called “Net Assets Held in Trust”
Agency Funds

- Conduit or clearinghouse funds established to account for assets received for and paid to other funds, individuals, or organizations
- Only used for assets held for the benefit of others
Allowable uses of Agency Funds

- “Pure” pass-through grants – government serves only as a cash conduit (use of AF mandated by GASB)
- Payroll deduction collection & payments
- Imprest checking account
  - Receipts must be allocated among several funds
  - Single expenditure financed by several funds
Tax Agency Funds (TAF)

- Used to combine tax levies from multiple governments in same geographic area
- Practice avoids duplicating assessment and collection processes
Functions of TAF

- Governments continue to maintain own tax records.
- Assessments turned over to TAF for collection
- TAF sends out bills to taxpayers
- Collections made by TAF
- Collections distributed to participating governments, less collection fee that goes to government administering the TAF
TAF Financial Statements

- **Statements of Net Assets** [Page 478] – does not include cash balance of TAF since money belongs to the administering government

- **Statement of Changes in Assets & Liabilities** [Page 478]
  - *Not* an operating statement
  - Only reports changes in assets & liabilities
Special Assessment Agency Funds

- Used when government is not obligated in any manner on debt issued to finance a special assessment.
- Debt is not accounted for by government, but asset will be in GCA list.
- Government is debt service agent:
  - Collects assessments from property owners.
  - Makes payments to debt holders.
Types of Trust Funds

- Pension (or Other Postemployment Benefit) Trust Funds
- Investment Trust Funds
- Private Purpose Trust Funds
Private Purpose Trust Fund

- Not common in governments
- May be either
  - Expendable – principal and earnings may be spent
  - Nonexpendable – principal must be maintained but earnings may be expendable or nonexpendable
Financial Statements

- Statement of Net Assets
- Statement of Changes in Net Assets
Investment Trust Funds

- Used when government invests its own money as well as funds from other governments.
- Only money of other governments reported in this fund – government’s own money must be reported in the funds.
- Additions are amounts invested by participating governments & investment income.
- Deductions are withdrawals and investment expenses incurred.
Pension Trusts

- Fastest growing funds of most governments
- Occasionally run at state level for participating governments
- Retirement System of Alabama (RSA) maintains funds for State employees and most county and municipal governments – making it a PERS
Plans classified as

- Single-employer plans – only one government’s employees in plan
- Multiple-employer plans – employees of many governments are participating – may be either
  - Agent – multiple single-employer plans combined into single operation
  - Cost-sharing – one large plan
Pension Accounting Standards

- GASB #25 – Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans
- GASB #27 – Accounting for Pensions by State and Local Governmental Employers
OPEB Accounting Standards

- GASB #43 – Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans
- GASB #45 – Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions
Primary Accounting & Reporting Requirements

- Financial Statements
  - Statement of Plan Net Assets
  - Statement of Changes in Plan Net Assets

- Statement of Changes in Plan Net Assets reports additions & deductions

- Investments reported at fair value

- Capital assets reported at historical cost and depreciated
Primary Accounting & Reporting Requirements (continued)

- Actuarial information not in statements but in Required Supplementary Information (RSI)
- Parameters established for actuarially determined information
- Standardized pension benefit obligation measurement not required – several options are available
Pension Reporting

- Financial Statements [Page 488]
  - Statement of Plan Net Assets
  - Statement of Changes in Plan Net Assets

- RSI [Page 489]
  - Schedule of Funding Progress
  - Schedule of Employer Contributions
Employer Fund Reporting: Annual Pension Costs

- Cost-sharing plan – amount determined by the plan
- Single-employer (or agent) plan
  - Measured as employer’s actuarial determined annual required contribution (ARC)
  - Adjusted for interest on beginning net pension obligation (NPO)
  - Adjusted for actuarial amortization from past contribution deficiencies or excess contributions