Accounting for Fiduciary Activities: Agency and Trust Funds

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The University of West Florida

Student Learning Outcomes

- Explain the purposes of fiduciary funds and distinguish among agency funds and trust funds (private-purpose, investment, and pension)
- Describe the uses for and characteristics of agency funds
- Explain the operations of, and accounting and financial reporting for commonly used agency funds

Student Learning Outcomes

- Explain the creation, operation, accounting, and financial reporting for:
  - a cash and investment pool (including an investment trust fund),
  - a private-purpose trust fund, and
  - a pension trust fund.
Agency Funds

Purpose
• To account for assets held by a governmental unit acting as an agent for one or more other governmental units, individuals, or private organizations

Use an agency fund if:
• Dollar amount of transactions dictate use of agency fund for accountability reasons
• Its use will improve financial management or accounting
• Mandated by law, regulation, or GASB standards.

Typical Uses
• Special assessment accounting when the government is not obligated in any manner for special assessment debt
• Tax agency funds (very common usage)
• Pass-through agency funds (but not as common since GASBS 24 on grant accounting was issued).

Special Assessment Agency Funds
• To account for special assessments when only the benefited taxpayers, and not the governmental unit, are obligated to pay interest and principal on the special assessment debt.
• The government must not have indicated in any way its intent to be responsible for the debt
• The government is simply acting as an agent for the benefited property owners, as well as the special assessment bondholders.
Assume that $1,000,000 of special assessment taxes are levied, payable in ten equal installments of $100,000 each, with 5% interest charged on the previous balance of deferred installments. Interest on taxes is intended to cover interest on the special assessment bonds. When the taxes are levied:

**Agency Fund:** Dr. Cr.
- Assessments Receivable—Current 100,000
- Assessments Receivable—Deferred 900,000
  - Due to SA Bondholders—Principal 1,000,000

**Example**

Assume all current special assessment taxes were collected in cash, along with 5% interest on the previous unpaid balance. The required agency fund entry is:

**Agency Fund:** Dr. Cr.
- Cash 150,000
- Assessments Receivable—Current 100,000
- Due to SA Bondholders—Interest 50,000

**Example**

Special assessment bondholders were paid principal in the amount of $100,000 and interest in the amount of $50,000.

**Agency Fund:** Dr. Cr.
- Due to SA Bondholders—Principal 100,000
- Due to SA Bondholders—Interest 50,000
  - Cash 150,000
At the beginning of the following year, the next installment of assessments receivable was reclassified from deferred to current status:

**Agency Fund:**

<table>
<thead>
<tr>
<th>Dr.</th>
<th>Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assessments Receivable—Current</td>
<td>100,000</td>
</tr>
<tr>
<td>Assessments Receivable—Deferred</td>
<td>100,000</td>
</tr>
</tbody>
</table>

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The Clinton County tax collector acts as property tax collection agent for Delta City, the Delta R-5 Consolidated School District, and the County's own general fund. Delta City and the school district are charged a 1% collection fee which is passed to the county's general fund as revenue.

The levy for the year for the General Fund of each governmental unit was $500,000, which was $250,000 for Delta City (50%), $150,000 for the school district (30%), and $100,000 for the County (20%).

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At the time of tax levy:

**County Tax Agency Fund:**

<table>
<thead>
<tr>
<th>Dr.</th>
<th>Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes Receivable for Other Funds and Units</td>
<td>500,000</td>
</tr>
<tr>
<td>Due to Other Funds and Units</td>
<td>500,000</td>
</tr>
</tbody>
</table>
Assuming that 4% of taxes levied will be uncollectible:

**Delta City General Fund:**
- Dr. Cr.
- Taxes Receivable—Current 250,000
- Estimated Uncollectible Current Taxes 10,000
- Revenues 240,000

**Delta R-5 CSD General Fund:**
- Taxes Receivable—Current 150,000
- Estimated Uncollectible Current Taxes 6,000
- Revenues 144,000

**Clinton County General Fund:**
- Taxes Receivable—Current 100,000
- Estimated Uncollectible Current Taxes 4,000
- Revenues 96,000

**Tax Agency Fund Illustrative Transactions**

During the first six months of the year, $400,000 was collected from current taxes. Calculate the amount to be distributed to each governmental unit.

<table>
<thead>
<tr>
<th>Fund/Unit</th>
<th>Levy Amt</th>
<th>%</th>
<th>Amt Due*</th>
<th>Fees</th>
<th>Net Due</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delta City</td>
<td>$250,000</td>
<td>50%</td>
<td>$200,000</td>
<td>($2,000)</td>
<td>$198,000</td>
</tr>
<tr>
<td>R-5 C.S.D.</td>
<td>150,000</td>
<td>30%</td>
<td>$120,000</td>
<td>(1,200)</td>
<td>118,800</td>
</tr>
<tr>
<td>County</td>
<td>100,000</td>
<td>20%</td>
<td>80,000</td>
<td>3,200</td>
<td>83,200</td>
</tr>
</tbody>
</table>

*Amount due is $400,000 x Percentage of Levy

The following entries are required in the County Tax Agency Fund to record the collection and allocation.

**Clinton County TAF:**
- Dr. Cr.
- Cash 400,000
- Taxes Receivable for Other Funds and Units 400,000
Following entry in the agency fund shows the allocation of collected amounts to each participating fund and unit.

<table>
<thead>
<tr>
<th>Clinton County Tax Agency Fund:</th>
<th>Dr.</th>
<th>Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due to Other Funds and Units</td>
<td>400,000</td>
<td></td>
</tr>
<tr>
<td>Due to Delta City</td>
<td>198,000</td>
<td></td>
</tr>
<tr>
<td>Due to R-5 CSD</td>
<td>118,800</td>
<td></td>
</tr>
<tr>
<td>Due to County General Fund</td>
<td>83,200</td>
<td></td>
</tr>
</tbody>
</table>

When the County Tax Agency Fund disburses the amounts due to each governmental unit, it would make the following entry:

<table>
<thead>
<tr>
<th>Clinton County TAF:</th>
<th>Dr.</th>
<th>Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due to Delta City</td>
<td>198,000</td>
<td></td>
</tr>
<tr>
<td>Due to R-5 CSD</td>
<td>118,800</td>
<td></td>
</tr>
<tr>
<td>Due to County General Fund</td>
<td>83,200</td>
<td>Cash</td>
</tr>
</tbody>
</table>

Upon receipt of the amounts due each government:

<table>
<thead>
<tr>
<th>Delta City General Fund:</th>
<th>Dr.</th>
<th>Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>198,000</td>
<td></td>
</tr>
<tr>
<td>Expenditures</td>
<td>2,000</td>
<td></td>
</tr>
<tr>
<td>Taxes Receivable—Current</td>
<td>200,000</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Delta - 5 CSD General Fund:</th>
<th>Dr.</th>
<th>Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>118,800</td>
<td></td>
</tr>
<tr>
<td>Expenditures</td>
<td>1,200</td>
<td></td>
</tr>
<tr>
<td>Taxes Receivable—Current</td>
<td>120,000</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Clinton County General Fund:</th>
<th>Dr.</th>
<th>Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>83,200</td>
<td></td>
</tr>
<tr>
<td>Taxes Receivable—Current</td>
<td>80,000</td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>3,200</td>
<td></td>
</tr>
</tbody>
</table>
Fiduciary Funds Required
Financial Statements

- Statement of Fiduciary Net Assets
- Statement of Changes in Fiduciary Net Assets

Types of Trust Funds

- Investment
- Private-purpose
- Pension

Trust Fund Characteristics

- To account for assets the government holds as an agent or trustee for individuals, organization, or other governmental units.
- Uses accrual accounting under GAAP; another basis of accounting may be prescribed by state law or the donor.
- GAAP requires that most investments be reported at fair value (GASBS 31)
Investment Trust Funds

- A fund type created by GASBS 31 in 1997
- Used to account for the balance sheet and operating statement transactions affecting the external participants of a centrally managed investment pool.

Private Purpose Trust Funds

- An expendable or nonexpendable trust fund in which the allowable amounts can only be expended for the “private-purposes” specified by the donor.
  - An escheat property trust fund to account for assets of individuals who die intestate is a common example of a private-purpose trust fund.
- If the government or its citizenry is the primary beneficiary, then account for the gift in a “public-purpose” Permanent Fund (if the gift is an endowment) or Special Revenue Fund (if the gift is expendable.)

Accounting for Trust Funds

- Measurement of nonexpendable trust fund income:
  - Most states have adopted a version of either the Uniform Management of Institutional Funds Act or the Uniform Prudent Investors Act.
  - These acts permit a prudent portion of unrealized gains and losses to be used as distributable income.
The authoritative guidance for pension accounting and reporting is provided by three GASB Statements:

- Accounting for Pensions by State and Local Governmental Employers (GASBS 27)
- Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans (GASBS 26)

GASB 25

Prescribes accounting and financial reporting standards for defined benefit plans administered through a governmental employer’s pension trust fund.

GASB 26

Interim pronouncement issued pending completion of GASB’s project on accounting and financial reporting for other post retirement benefits.
GASB 27

- Provides standards for employer measurement, recognition and display of pension expenditures or expenses and related liabilities, assets, note disclosures, and if applicable, required supplementary information.
- Does not address accounting and reporting for pension trust funds.

Employer Pension Accounting

- GASB accounting and financial reporting standards for the employer provide guidance for:
  - Pension expenditures/expenses
  - Pension liabilities and assets
  - Note disclosures
  - Required supplementary information

Typical Entries

To record contributions:
- Due from (contribution fund) xxxx
  - Employer contributions xxxx
  - Employee contributions xxxx

To record refund to nonvested employees who resign:
- Payments to resigned employees xxxx
- Due to resigned employees xxxx
Typical Entries

To accrue and pay annuities:
Annuity payments     xxxx
     Annuities payable     xxxx
     Cash                 xxxx

To record investments:
Investments           xxxx
     Cash                xxxx

Typical Entries

To record year-end increase in the fair value of investments:
Investments           xxxx
     Net increase in fair value of investments   xxxx

Closing entry:
Employer contributions xxxx
Employee contributions  xxxx
Interest revenue        xxxx
Net increase in fair value of investments   xxxx
     Payments to resigned employees          xxxx
     Annuity payments                      xxxx
     Net assets held in trust for pension benefits   xxxx

Key Terms

● Annual Pension Cost
● Annual Required Contributions (ARC)
● Actuarial deficiencies (excesses)
● Net Pension Obligation (NPO)
● Transition liability/asset
GASB pension accounting standards apply not only to general purpose government employers but also to:
- government-owned or affiliated healthcare entities,
- colleges and universities,
- public benefit corporations and authorities,
- utilities, and
- pension plans themselves if they are also employers.

GASB standards provide guidance for defined benefit plans that are either:
- included as part of an employer's financial report, or
- are included in stand-alone reports.

Standards distinguish between two categories of pension information:
- current financial information about plan assets and activities, and
- actuarially determined information about the funded status of the plan and progress in accumulating assets.

Defined Benefit Pension Plans
- Statement of Plan Net Assets (see III. 8-8)
- Statement of Changes in Plan Net Assets (see III. 8-9)
- Schedule of Funding Progress (see III. 8-10)
- Schedule of Employer Contributions (see III. 8-11).
Other Post Retirement Benefits

- Benefits, such as health care for retirees, may represent a material liability.
- GASB required certain disclosures by governmental employers that provide OPEB.
- If the OPEB is administered by a defined benefit pension plan, it follows the standards set forth in GASBS 26 (and GASB Codification Sec. Po50).
- Financial reporting is similar to those for a defined benefit pension plan.

Concluding Comments

- Agency funds normally are used only for significant agency relationships in which a governmental unit acts as an agent for another party.
- There are three types of trust funds – investment, private-purpose, and pension.
- All trust funds essentially follow proprietary fund accounting principles.
- Accounting and financial reporting requirements for defined benefit pension plans and the related employer requirements are complex, relying on actuarial estimates for much of the information reported.

The Next Step

- Chapter 8 City of Smithville Simulation, Due no later than midnight, CDT, July 3.
- Chapter 8 CAFR Assignment, Due no later than midnight, CDT, July 3.
- Problems 8-2, 8-3, 8-5.