

# FINANCIAL MANAGEMENT FOR GEORGIA LOCAL UNITS OF ADMINISTRATION

Date Issued	Effective Date	Section	Title:
July 1, 1994	July 1, 1994	I	GAAP Accounting and Financial Reporting Principles
Revision No.	Date Revised	Chapter	Title:
2	March 2017	I-21	Fiduciary Funds

## INTRODUCTION

The fiduciary funds classification is used to account for assets held by a Local Unit of Administration (LUA) in a trustee or agent capacity for others and are the only generic fund types included in the fiduciary fund types category pursuant to the 2015-2016 *Codification of Governmental Accounting and Financial Reporting Standards (2015-2016 Codification)*. The fiduciary generic fund types are; investment trust funds, pension trust funds, private-purpose trust funds, and agency funds.

### Investment Trust Fund

This fund is used to account for the external portion of a LUA's investment pool, and use of this fund type in a Georgia school district would be rare.

### Pension Trust Funds

This fund classification is used primarily to account for the activities of an LUA's single employer public employee retirement system (PERS). In Georgia, very few LUAs maintain a single employer PERS. Since most LUAs contribute to the Georgia Teachers Retirement System, they do not have to use this fund type to report the contributions to the retirement plan. In either event, the contributions to a PERS should be reported in the fund type where the cost and/or employee deduction occurs.

## **Private-Purpose Trust Funds**

This fund classification should be used when both the principal and revenues earned on that principal may be expended for individuals, private organizations, or other governments. The key is that expenses must be for those outside the government.

## **Agency Funds**

An agency fund is used to account for assets belonging to private organizations, other governments, or individuals. Under 2015-2016 *Codification* Section 1300.114, agency funds are custodial in nature (i.e., assets equal liabilities). Therefore, since agency funds merely are clearing accounts, the activities reported here could be reported in any fund. If the assets are owned by other funds the agency fund classification should NOT be used.

According to 2015-2016 *Codification* section D25.101, “an Internal Revenue Code (IRC) Section 457 deferred compensation plan that meets the criteria in Section 1300, "Fund Accounting," paragraphs .102c and .111, for a pension (and other employee benefit) trust fund should be reported in that fund type in the statements of fiduciary net position and changes in fiduciary net position.”

Currently, the most common use of agency funds for Georgia LUAs includes funds held for student organizations and payroll withholdings such as flexible benefit deductions. Separate agency funds generally are used for individual agency relationships. However, a single agency fund may be used to account for several closely related amounts.

## **BUDGETARY ISSUES**

Legally adopted budgets and formal budgetary integration are not required for trust funds. Trust fund spending may be controlled primarily through legal trust agreements and applicable state laws. However, if formal budgetary integration is considered necessary by the LUA to assure acceptable control over trust fund spending, this accounting convention should be used. For example, it may be necessary to adopt a budget for the administrative operation costs of a private-purpose trust fund. Since agency funds are custodial in nature, formal budgetary integration is not necessary for them.

## **Basis of Accounting/Measurement Focus**

Accrual basis of accounting is used for fiduciary funds. All trust funds use the economic resources measurement focus. Agency funds do not have a measurement focus since only assets and liabilities are recorded here.

## **Pension Trust Funds**

This section discusses briefly the accounting and financial reporting principles applicable to an LUA maintaining a pension trust fund. The 2015-2016 *Codification* Section P20.108 and P20.109 classifies public employee retirement systems (PERS) defined benefit plans as single-employer or multiple-employer. A single-employer PERS is one to which only one

employer contributes. A multiple-employer PERS is one to which more than one employer contributes. If a Georgia LUA is maintaining a pension trust fund, it is a single-employer PERS. Some multiple-employer PERS are aggregations of single-employer PERS and have separate complete actuarial valuations for each participating government. These PERS are classified as agent PERS. Other multiple-employer PERS are essentially one large pension plan with cost-sharing arrangements and one actuarial valuation is performed for the PERS as a whole. These PERS are classified as cost-sharing PERS.

### Agency Funds

Even though agency funds do not report operations, the accrual basis of accounting is followed for recognizing assets and liabilities. On the statement of net position, assets should equal liabilities. If revenues are earned on an agency fund's assets (e.g., interest earnings), the assets are increased and a liability is reported to whomever the funds are due to (e.g., the student organizations). No operating statement is presented since agency funds do not have revenues and expenses.

### ILLUSTRATIVE JOURNAL ENTRIES

The following journal entries and discussion, where applicable, illustrate the financial transactions required for the establishment of a private-purpose trust fund during the year.

Private-Purpose Trust Fund Transaction - contributions in the amount of \$8,200 are received.

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Cash in bank	0101	\$8,200	
Contributions from private sources	1920		\$8,200

Transaction - treasury bills costing \$30,000 are sold for \$32,000.

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Cash in bank	0101	\$32,000	
Investments	0111		\$30,000
Investment Income	1500		\$2,000

Transaction - interest earned on investments, but not yet received, totaled \$4,000.

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Interest receivable	0114	\$4,000	
Investment Income	1500		\$4,000

Transaction - various services are provided by outside vendors and invoices are received totaling \$8,600.

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Expenditures	xxx.xx	\$8,600	
Accounts payable	0421		\$8,600

Transaction - excess cash is invested in short-term investments in the amount of \$38,000.

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Investments	0111	\$38,000	
Cash in bank	0101		\$38,000

Transaction - outstanding accounts payable in the amount of \$8,100 is paid.

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Accounts payable	0421	\$8,100	
Cash in bank	0101		\$8,100

### **Agency Fund**

The following journal entries and discussion, where applicable, illustrate the changes in the assets and liabilities.

Transaction - received cash on behalf of the high school Beta Club

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Cash in bank	0101	\$1,000	
Other Current Liabilities	0499		\$1,000

Transaction - remitted cash on behalf of high school Beta Club

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Other Current Liabilities	0499	\$1,000	
Cash in bank	0101		\$1,000

## **SUMMARY**

1. The fiduciary funds classification is used to account for assets held by a Local Unit of Administration (LUA) in a trustee or agent capacity for others.
2. Investment trust fund is used to account for the external portion of a LUA's investment pool, and use of this fund type in a Georgia school district would be rare.
3. Pension trust fund classification is used primarily to account for the activities of an LUA's single employer public employee retirement system (PERS). In Georgia, very few LUAs maintain a single employer PERS.
4. This fund classification should be used when both the principal and revenues earned on that principal may be expended for individuals, private organizations, or other governments. The key is that expenses must be for those outside the government.
5. An agency fund is used to account for assets belonging to private organizations, other governments, or individuals.
6. Accrual basis of accounting is used for fiduciary funds. All trust funds use the economic resources measurement focus. Agency funds do not have a measurement focus since only assets and liabilities are recorded here.