

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:
3	July 2019	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 custodial capacity for others and are the only generic fund types included in the fiduciary fund types category pursuant to the 2017-2018 *Codification of Governmental Accounting and Financial Reporting Standards (2017-2018 Codification)*. The fiduciary generic fund types are; investment trust funds, pension trust funds, private-purpose trust funds, and custodial funds.

NOTE: This chapter is updated to include the Governmental Accounting Standards Board (GASB) Statement Number 84 – Fiduciary 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.

Custodial Funds

A custodial fund is used to account for assets belonging to private organizations, other governments, or individuals. Under 2017-2018 *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.

Effective July 1, 2019, the Governmental Accounting Standards Board implemented GASB Statement No 84, which updates the definition of agency funds to custodial funds. This FMGLUA chapter has been updated for GASB No 84, which defines custodial funds as funds used to report fiduciary activities that are not required to be reported in pension trust funds, investment trust funds, or private purpose trust funds.

To meet the definition of a custodial fund (effective July 1, 2019), the activity must meet **all** the following criteria (per GASB Statement No 84):

- a. The assets associated with the activity are controlled by the government.
- b. The assets associated with the activity are not derived either:
 1. Solely from the government's own-source revenues or
 2. From government-mandated nonexchange transactions or voluntary nonexchange transactions except for pass-through grants for which the government does not have administrative involvement or direct financial involvement.
- c. The assets associated with the activity have **one or more** of the following characteristics:
 1. The assets are (a) administered through a trust in which the government itself is not a beneficiary, (b) dedicated to providing benefits to recipients in accordance with the benefit terms, and (c) legal protected from the creditors of the government.
 2. The assets are for the benefit of individuals and the government does not have administrative involvement with the assets or direct financial involvement with the assets. Additionally, the assets are not derived from the government's provision of goods or services to those individuals.
 3. The assets are for the benefit of organizations or other governments that are not part of the financial reporting entity. Additionally, the assets are not derived from the government's provision of goods or services to those organizations or other governments.

The distinction of whether the activity associated with the fund is controlled by the government provides additional clarification for local units of administration to determine if the activity, including school activity funds, should be classified as governmental or fiduciary in nature.

According to 2017-2018 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 custodial funds for Georgia LUAs includes funds held for student organizations and payroll withholdings such as flexible benefit deductions. Separate custodial funds generally are used for individual custodial relationships. However, a single custodial 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 these funds are custodial in nature, formal budgetary integration is not necessary for them.

Basis of Accounting/Measurement Focus

Fiduciary funds are reported using the economic resources measurement focus and accrual basis of accounting. Required financial statements for fiduciary funds are the statement of fiduciary net position and the statement of changes in fiduciary net position. The statements should include those fiduciary funds of the primary government, as well as the component units that are fiduciary in nature.

Pension Trust Funds

This section discusses briefly the accounting and financial reporting principles applicable to an LUA maintaining a pension trust fund. The 2017-2018 *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.

Custodial Funds

Effective with the implementation of GASB Statement No. 84 – Fiduciary Funds, custodial funds are also reported on the accrual basis of accounting to recognize assets, liabilities, revenues, and expenditures.

ILLUSTRATIVE JOURNAL ENTRIES

Private-Purpose Trust Fund

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.

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	Funct-Prog-Obj	\$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

Custodial Fund

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

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	
Donations	1220		\$1,000

Transaction - expenditure on behalf of high school Beta Club

<u>Description</u>	<u>Account No.</u>	<u>DR</u>	<u>CR</u>
Expenditures	Funct-Prog-Obj	\$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 custodial 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. A custodial 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 fiduciary funds use the economic resources measurement focus.