

## CHAPTER 13 – Fiduciary Activity

### INTRODUCTION

This chapter provides information that is unique to fiduciary activity. Some information presented here may also be included in other parts of this manual, but it is included here so that those new to governmental accounting can obtain a general overview of fiduciary activity in one location.

As required by accounting standards, governmental accounting systems should be organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. (See Chapter 1 Fund Accounting Systems, for additional information regarding fund accounting systems.)

The standards categorize funds into one of eleven fund types. These fund types are grouped into three general classifications:

- Governmental funds are used to account for tax-supported activities. GAAP establishes five governmental fund types; General Fund, Special Revenue Funds, Capital Projects Funds, Debt Service, and Permanent Funds. RCW 28A.320.330 requires school districts in Washington state to establish a General Fund, Capital Projects Fund, Debt Service Fund, and Associated Student Body Fund (Special Revenue Fund). RCW 28A.160.130 creates a Transportation Vehicle Fund (Capital Projects Fund).
- Proprietary funds are used to account for business-type activities of a government and are supported, at least in part, by fees or charges. Proprietary funds are **not** permitted for school districts in Washington state.
- Fiduciary Funds are used to account for resources in situations where the government is acting as a trustee or agent for parties outside the government. Fiduciary Funds *cannot* be used to support the government's own programs. Although GAAP provides for four Fiduciary Fund types, most school districts will only have two types: private-purpose trust funds, and custodial funds.

## **FIDUCIARY FUNDS**

Fiduciary Fund reporting focuses on net position and changes in net position. Fiduciary funds should be used to report assets held in a trustee or custodial capacity for others and cannot be used to support the government's own programs. The Fiduciary fund category includes Pension (and Other Employee benefit) Trust Funds, Investment Trust Funds, Private-Purpose Trust Funds, and Custodial Funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

### **Trust Funds**

#### ***Pension (and Other Employee Benefit) Trust Funds***

*Pension (and other employee benefit) trust funds* are used to report fiduciary activities for the following:

- Pension plans and OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of GASB Statement 67 or paragraph 3 of Statement 74, respectively.
- Other employee benefit plans for which resources are held in a trust that meets the criteria in GASB Statement 84, paragraph 11c (1); and also, contributions to the trust and earnings on those contributions are irrevocable.

Pension (and other employee benefit) trust funds are used to report resources held by the district in trust for members and beneficiaries of defined benefit pension plans, defined contribution plans, or other post-employment or other benefit plans administered by the district. If the school district has established its own deferred compensation plans under Internal Revenue Code Section 457, GASB 32 requires this to be accounted for as pension (or other post-employment benefit) trust funds if the district has fiduciary accountability for the plan.

Pension and employee benefit plans administered by other state agencies, such as the Department of Retirement Systems or Health Care Authority, are reported by those entities and not reported as trusts by the school district.

### ***Investment Trust Funds***

Not applicable to school districts in Washington State.

### ***Private-Purpose Trust Funds***

*Private-purpose trust funds* are used to report all fiduciary activities *not* required to be reported in pension (and other employee benefit) trust funds and are held in a trust in which the assets are:

- Administered through a trust in which the government itself is *not* a beneficiary,
- Dedicated to providing benefits to recipients in accordance with the benefit terms, and
- Legally protected from the creditors of the government.

These funds are used to report trust arrangements under which the income and principal benefits individuals, private organizations, or other governments. Examples are moneys or other assets donated to school districts for scholarship, student aid, charitable, and other like uses. The authority to use the resources comes from the donor who specifies a use or range of allowed uses for assets to be held in trust and, accordingly, the school board has the authority to determine the use of the assets only within the confines of the original trust agreement. For this reason, school boards are required to formalize by board resolution the acceptance of any moneys or other assets to be held in trust.

When established, the Private-Purpose Trust Fund will account for one or more individual trusts, so it will not be necessary to have several trust funds established in the district's accounting records. Thus, the balance of assets in the trust fund will consist of an aggregate of balances of individual trusts.

### ***Custodial Funds***

Beginning in 2019–20 and with the implementation of GASB Statement 84, the term Agency Fund is replaced with Custodial Funds. The GASB Board concluded that the

title *agency fund* often is confused with *agencies* of the government. The Board, therefore, established the custodial fund classification to address this issue.

*Custodial funds* are used to report fiduciary activities that are *not* required to be reported in pension (and other employee benefit) trust funds or private-purpose trust funds.

Custodial Funds differs from a Private Purpose Trust fund in that there is no formal trust agreement. The school district is acting in an agent capacity for some other organization, government, individual, or fund. They are used where the government's role is purely custodial, such as the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments. The modified accrual basis of accounting is used to measure financial position.

## **Fiduciary Activity Criteria**

An activity is a fiduciary activity **if all** of the following criteria are met:

- The assets associated with the activity are controlled by the school district. A school district controls the assets if it (a) holds the assets or (b) has the ability to direct the use, exchange, or employment of the assets in a manner that provides benefits to the specified or intended recipients.
- The assets associated with the activity **are not** derived either:
  - Solely from the school district's own-source revenues. Applicable examples of own-source revenues include investment earnings and imposed nonexchange revenues such as property taxes.
  - From government-mandated nonexchange transactions or voluntary nonexchange transactions with the exception of pass-through grants for which the school district **does not** have administrative involvement or direct financial involvement. A recipient school district has administrative involvement if, for example, it (a) monitors secondary recipients for compliance with program-specific requirements, (b) determines eligible secondary recipients or projects, even if using grantor-established criteria, or (c) has the ability to exercise discretion in how the funds are allocated. A recipient school district has direct financial involvement if, for example, it

finances some direct program costs because of a grantor-imposed matching requirement or is liable for disallowed costs.

An activity is a fiduciary activity if the assets associated with the activity have **one or more** of the following characteristics:

- The assets are (a) administered through a trust in which the school district itself is *not* a beneficiary, (b) dedicated to providing benefits to recipients in accordance with the benefit terms, and (c) legally protected from the creditors of the school district.
- The assets are for the benefit of individuals and the school district **does not** have administrative involvement with the assets or direct financial involvement with the assets. In addition, the assets are *not* derived from the school district's provision of goods or services to those individuals.
- The assets are for the benefit of organizations or other governments that are *not* part of the financial reporting entity. In addition, the assets are *not* derived from the school district's provision of goods or services to those organizations or other governments.

## Trust Fund General Information

### ***Definitions***

#### Trust

A trust is a right of property, real or personal, held by one party for the benefit of another.

#### Trust fund

A trust fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources together with all related liabilities and residual equities or balances. It is established to carry out the terms of a trust instrument. See Chapter 1 for a general discussion of school district funds.

#### Trust instrument

A trust instrument is the formal document, which creates the trust and contains the powers of the trustees and the rights of the beneficiaries.

#### Central district office

The central district office is comprised of the board of directors or their official designee to whom authority has been delegated to act on their behalf.

### **Trust Instruments**

Each trust within the district's trust fund or funds shall be accepted under the terms of a separate trust agreement to be entered into by the district and the donor at the time the donation is accepted. Such trust instruments shall stipulate the terms under which moneys may be expended by the district, and shall be ratified by board resolution. Unless otherwise directed by the board, the trust instrument shall constitute an appropriation and authorization for the disbursement of moneys for the purposes established in the trust instrument. Where the donor imposes no specific conditions, a gift may be accepted by board resolution and recorded in a trust activity account that pools similar gifts.

### **Establishment of Private-Purpose Trust Funds**

The establishment in the district's accounting records of a Private-Purpose Trust Fund as deemed appropriate by the board of directors is strongly encouraged as a prerequisite whenever the board of directors chooses to accept, receive or administer for scholarship or student aid purposes, or for the benefit of the school district any gift, grant, conveyance, devise, or bequest of real or personal property under the authority of RCW 28A.320.030.

### **General Fund Revenue Account 2500—Gifts, Grants, and Donations**

A distinction should be made between trust funds as discussed in this chapter and Revenue Account 2500 Gifts, Grants, and Donations. Account 2500 should be used for gifts intended to be spent immediately, either for a specified purpose or at the district's discretion, and where, accordingly, no trust relationship exists between the donor and the district.

## **Foundations**

A distinction should also be made between the trust funds as described here and foundations. School districts are not authorized to set up foundations; however, districts are in many cases the beneficiaries of foundations. Districts should be careful not to become directly involved in the formation and administration of foundations. Donations from foundations may be recorded in General Fund Revenue Account 2500 Gifts, Grants, and Donations or may be set up in the trust funds, as appropriate.

## **Transferring or Returning Trust Money**

Money that has been donated for the designated purpose of scholarships that a district is holding in trust may be returned to the original donor or transferred to a foundation or other entity under specific circumstances.

First, the money has to have been donated specifically for award to individuals as scholarships for college or other non-district purposes, and be held in trust. Money or other donations received by the district that are either not held in trust, or are designated for a purpose other than scholarships for non-district programs, are considered to be public moneys, and cannot be returned to the donor or transferred to another entity. Part of the evidence in demonstrating this is existence of a private-purpose trust fund, and some form of trust agreement or documentation that outlines the original donation and provides that the intended use of the donated money was for scholarships.

Second, there needs to be some documentation of an agreement the district was holding the money in trust, and the original donor or other transferee and the district mutually agree the money should be returned or transferred.

Third, money held in trust can only be transferred through a judicial process. The full process is outlined in RCW chapter 11.96A. Procedural methods that may be used by the courts are outlined in RCW 11.96A.080 through .200.

The ability to transfer money from the district can only be accomplished through the judicial process outlined in RCW, and only for money held in trust for scholarship

purposes. Other donations are considered to be public money, for the use of the district in its general operations.

## **Budgeting**

The district does not budget trust funds. This is because the authority to use trust fund resources comes from the donor who specifies a use or range of allowed uses for the assets held in trust and, accordingly, the school board has the authority to determine the use of the assets only within the confines of the original trust agreement.

## **Gains and Losses of Private-Purpose Trust Investment Principal and Earnings**

Some trust arrangements permit expenditure of both principal and income, others require the principal be kept intact and allow only income be used. A primary concern of trust accounting is the distinction between transactions that affect trust principal and transactions that relate to trust income.

Income and principal determination procedures may be uniquely defined by the trust agreement. However, unless the trust agreement specifies otherwise, gains and losses on sales of principal assets increase or decrease trust principal rather than affect trust income. For example, the difference between book value of an investment of trust principal and the proceeds from the sale of that investment is considered to belong to the trust principal (corpus) and does not give rise to operating income. Gains or losses on principal should be considered to be nonoperating income or loss and credited or charged to trust principal.

Trust income, once recognized, remains in the trust fund.

## **System of Accounting for Private-Purpose Trust Funds**

A school district that intends to accept moneys in trust under RCW 28A.320.030 is required to create in the district accounting records a formal trust fund to account for such moneys. Donors may, and often do, establish restrictions as conditions of the contribution. The district shall create a Private-Purpose Trust Fund to satisfy the



requirements or conditions of the individual trust instrument. Each trust so created will be used to account for the individual trust instruments of each type that are entered into by the district.

For each conditional trust that the board agrees to accept, a trust instrument between the district and the donor shall be executed. The trust instrument shall be ratified by board resolution, and it shall stipulate the conditions under which the money may be expended.

In some instances, a donor may give a gift with only the general instruction that it be used for purposes per the formal trust instrument. Such moneys that benefit individuals or specific organizations should be accounted for as Private-Purpose Trust Funds. The determining factor is who may benefit, not the legal requirement that only earnings may be spent. Scholarship moneys, for example, benefit individuals and are accounted for as Private-Purpose Trust Funds whether or not the principal may be expended.

Supporting documents must be kept for all disbursements made.

### **Accounts for Individual Trusts**

In Private-Purpose Trust Funds, each individual trust shall be assigned an activity number to be used to record revenues and expenses for the individual trust.

Numbering series are assigned as follows:

100(0) Series	Scholarships
200(0) Series	Student Aid
300(0) Series	Other

### **Deposit and Investment of Trust Fund Moneys**

All trust fund moneys upon receipt shall be transmitted intact to the district depository bank and then to the county treasurer for deposit to the credit of the appropriate trust fund of the school district and shall be accounted for, expended, and invested subject to the practices and procedures governing other moneys of the district.

## **Accounting Procedures**

Trust fund moneys shall be accounted for as follows:

- Accounting methods and procedures shall comply with such rules, regulations, and guidelines as are developed by the state auditor and the Superintendent of Public Instruction and published in *The Accounting Manual for Public Schools in the State of Washington* or applicable bulletins of the Superintendent of Public Instruction.
- Whenever two or more trust agreements exist within a school district, the accounting records shall be maintained in such a manner as to provide a separate accounting for the transactions of each separate trust within the district's trust funds.
- The fiscal and accounting records of trust fund moneys shall constitute public records of the school district, shall be available for examination by the state auditor, and shall be preserved in accordance with statutory provisions governing the retention of public records. Personal information used in administering trust funds is exempt from public inspection and copying in accordance with RCW 42.17.310.
- The board of directors may require a fee to be paid to the district from trust fund moneys to reimburse the district for its cost in administering the trust funds.

## **Disbursement of Trust Fund Moneys**

Trust fund moneys shall be disbursed subject to the following conditions:

- No disbursements shall be made except as provided for in the appropriate trust instrument.
- Disbursement shall occur only upon presentation of properly prepared vouchers in such format and design, as the central district office shall prescribe.
- All disbursements from a school district trust fund or from any imprest bank account shall have the approval of the appropriate school district official and shall be identified with the appropriate trust instrument under which the disbursement is made.

- Warrants shall not be issued in excess of the moneys on deposit in the appropriate trust fund, nor shall a negative fund balance be allowed in any individual trust account.
- All disbursements shall be made by warrant except for disbursements from imprest bank accounts and petty cash funds (accounts) as provided for in this chapter.

### **Imprest Bank Checking Account**

The board of directors of a school district may authorize the establishment and maintenance of one or more imprest checking accounts for convenience and efficiency in expediting trust fund disbursements, subject to the following conditions:

- Any imprest bank checking account may be initiated by deposit of a warrant drawn on the appropriate trust fund. A reduction of the established amount in an imprest bank checking account shall be accomplished by depositing an imprest check to the trust fund account with the county treasurer.
- Disbursements from an imprest bank checking account shall be by check and shall be restricted to payments evidenced by vouchers bearing evidence of approval by the authorized district official.
- Expenses shall be recorded at least once each year by a warrant drawn on the appropriate trust fund in payment of an approved voucher in an amount equal to the sum total of the disbursements made by check from the imprest bank checking account during the preceding interval.
- In the event that the imprest bank checking account was established at an excessive amount and the trust fund does not contain sufficient money to replenish the imprest account to its authorized balance, a journal voucher shall be prepared and recorded debiting General Ledger Account 530 Expenditures and crediting General Ledger Account 200 Imprest Cash for the amounts previously disbursed by check.
- The replenishment or journal voucher shall reflect such information as the central district office shall prescribe relative to identification of invoices, invoice approvals, codification of expenses, canceled checks, and other information deemed pertinent.

## **Accounting Records**

The following accounting records shall be kept by each district, which administers trust funds under this chapter. Specific formats are not prescribed, but the specified information must be included. The ASB chapter of the accounting manual contains examples of similar forms.

### **Cash Receipts and Cash Receipts Journal**

Receipts shall be prepared when cash is received and shall be listed in a journal showing date received, receipt number, from whom received, account number or identification of the applicable individual trust, and dollar amount. The journal shall also serve to summarize deposits made to the county treasurer.

### **Check Register**

For each imprest account used, a check register shall be maintained, showing the detail of deposits and disbursements. Deposits will consist of warrants drawn on the trust fund for initial establishment of the account and for subsequent replenishment. Disbursements will consist of payments for scholarships awarded and other authorized uses.

### **Imprest Bank Checking Account Replenishment Request**

A replenishment request showing the checks issued, payee, dollar amount, and identifying the trust will be prepared to record the replenishment of the imprest fund (account). This request will serve as the voucher authorizing the issuance of a trust fund warrant and, accordingly, will contain the required auditing officer's certification. At a minimum, replenishment will be made at year-end so that expenses can be properly recorded.

## **Reconciliation of Imprest Bank Checking Account Statement**

The imprest checking account will be reconciled monthly on forms showing the reconciliation of the bank statement to the check register balance and the reconciliation of the check register balance to the authorized balance of the imprest account.

## **Payment Order**

A payment order authorizing the issuance of an imprest account check will be prepared showing the detail of the disbursement, including identification of the trust agreement, payee, date, and other pertinent information.

## **Individual Trust Account Balance Record and Treasurer's Report**

This report will be prepared detailing the beginning balances, receipts, disbursements, and ending balances of each individual trust and summarizing these items for the total trust fund.