

CHAPTER 19

TRUST AND AGENCY FUNDS

The Trust and Agency Fund accounts for assets held by a municipality in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. For the purposes of this accounting manual, Trust and Agency Funds are classified as Nonexpendable Trust, Expendable Trust, and Agency Funds. Pension Trusts, another classification, are beyond the purview of the municipal accounting department, and are, therefore, beyond the scope of this manual.

Trust and Agency Fund Descriptions

Nonexpendable Trust Funds - those whose principal must be preserved intact. For example, a donor might specify that the principal of an endowment be preserved intact and that the resultant investment income be used for a specified purpose.

Expendable Trust Funds - those whose principal and income may be expended for designated purposes. The use of Expendable Trust Funds should generally be limited to instances where legally mandated or where a formal legal trustee relationship exists. In Massachusetts, these funds are most often used to account for income amounts transferred from nonexpendable trusts.

Other Trust Funds - those other funds which are held by a municipality in a capacity similar to that of trustee, but which are not properly classified as a nonexpendable or expendable trust. They may be unique in their source of funding or require some form of special treatment or process. Examples of these are the Stabilization and Conservation Funds which are normally funded from money raised through taxation.

Trust Fund amounts available for general governmental operating purposes should generally be accounted for in the General Fund or in Special Revenue Funds and be made available by transfers from the Trust and Agency Fund.

Agency Funds - those funds held in a custodial capacity. At any given time, assets are equally offset by related liabilities due to parties for whom the assets are being held. Agency Funds do not involve measurement of revenues, expenditures, or expenses and, accordingly, do not have operating statements.

Common examples of Agency Funds are:

- "Tax collection" funds to account for property taxes billed and collected on behalf of another government, such as for water districts; and
- "Guarantee deposit" funds used to account for refundable deposits (deposits related to Enterprise operations should be classified as liabilities in related Enterprise Funds).

Accounting for Trust and Agency Funds

For most municipalities in Massachusetts, Trust and Agency Fund accounting is insignificant in comparison with the accounting and reporting responsibilities of other funds. In such circumstances, separate funds should be established for each of the general classifications (i.e., Nonexpendable Trust Funds, Expendable Trust Funds, Other Trust Funds, and Agency Funds). Due to specifications of some donors, however, certain Nonexpendable and/or Expendable Trust Funds may require accounting in their own separate fund.

While budgets are not usually required for Trust Funds (due to controls provided through legal trust agreements), amounts transferred to the General and/or Special Revenue Funds should be subject to budgeting control in those funds. Since Agency Funds are custodial in nature, formal budgetary accounting is not necessary for them.

The Trust and Agency Fund consists of four account groupings which should generally be accounted for in separate funds:

1. Nonexpendable Trust Funds
2. Expendable Trust Funds
3. Other Trust Funds
4. Agency Funds

Within each separate fund are the accounts which specify a particular trust or agency relationship. Separate cash, investment, and other asset accounts should be related to each fund using the recommended accounts in the Uniform Chart of Accounts. While all accounting responsibilities may be handled in the general ledger, some municipal accountants may wish to use subsidiary ledgers to account for detailed transactions affecting individual trusts or agency liabilities within each fund.

Nonexpendable Trust Funds are accounted for in essentially the same manner as proprietary funds. Note that in order to preserve the principal of Nonexpendable Trust Funds intact, it would generally be necessary that any gains or losses resulting from the investment of such funds be added or subtracted directly to or from the fund principal.

Expendable Trust Funds and Other Trust Funds are accounted for in the same manner as other governmental funds. Revenues and expenditures will be recorded on a cash basis during the year and year-end adjustments will be made to convert the basis of accounting to the modified accrual basis for reporting purposes.

Agency Funds, as noted above, do not involve the measurement of the results of operations. Such funds will be accounted for using the modified accrual basis of accounting. Accordingly, assets and liabilities are recognized when they occur regardless of the timing of related cash flows. When Agency Funds are invested, interest earnings allocable to outside governments or parties are credited to the related agency account. Interest earnings allocable to the General Fund are designated by a "Due To" account.

Accounting for the activity in Trust Funds is depicted for both the Nonexpendable and Expendable Trust Funds through a series of journal entries presented in the following groupings:

- Opening Entry
- Revenues
- Investment of Excess Cash

- Nonexpense Transfers
- Miscellaneous Entries
- Adjusting Entries
- Closing Trial Balance

Note that in each of the four funds described above, subsidiary records will be required for each individual trust or other fund. It would as noted above generally not be necessary, however, to maintain subsidiary revenue and expenditure accounts. The following examples reflect revenue and expenditure transactions classified directly to the fund balance.

Nonexpendable Trust Funds

Opening Entry

At the beginning of the fiscal year, account balances from the prior year's ending trial balance should be recorded in the general ledger.

1. The closing trial balance of the prior year is journalized and entered in the general ledger.

81-1050	Cash - Unrestricted Savings	\$ 55,000	
81-3151	Unreserved Fund Balance		\$ 55,000
		\$ 55,000	\$ 55,000

To record the opening trial balance

Revenues

Revenues in the Nonexpendable Trust Fund are recognized on the cash basis during the year and adjusted to the accrual basis at year-end. Sources of revenue include additional bequests and donations, gain or loss on investment transactions, interest income and investment income. Investments are illustrated under the subheading "Investments of Excess Cash."

2. Interest is received for the month on the savings account.

81-1050	Cash - Unrestricted Savings	250	
81-3151	Unreserved Fund Balance		250

To record the receipt of interest on savings

3. Additional bequests are received from donors.

81-1050	Cash - Unrestricted Savings	10,000	
81-3151	Unreserved Fund Balance		10,000

To record the receipt of additional bequests

Investments of Excess Cash

The term "excess cash" is really not appropriate in Trust Funds since all cash is "excess", but the term is used to be consistent with the format used in the manual. In the Trust Funds, it is advisable to invest as much of the cash as possible in order to obtain the highest return on investment without undue risk of the principal.

4. Savings are used to invest in certificates of deposit.

81-1120	Certificates of Deposit	60,000	
81-1050	Cash – Unrestricted Savings		60,000

To record the investment in certificate of deposit

5. The certificate of deposit matures and the receipt is reported.

81-1050	Cash - Unrestricted Savings	52,500	
81-1120	Certificates of Deposit		50,000
81-3151	Unreserved Fund Balance		2,500

To record the maturity of certificate of deposit

Transfers

When the earnings on Nonexpendable Trust principal are legally expendable by trust agreement, the earnings should be periodically transferred to an Expendable Trusts Fund.

6. Earnings from savings and investments which are legally expendable are transferred to an Expendable Trust.

81-3151	Unreserved Fund Balance	7,525	
81-1050	Cash – Unrestricted Savings		7,525

To record the transfer of earnings to
Expendable Trusts

Miscellaneous Entries

The following entries are provided with minimal explanation in order to allow users of this manual to duplicate, through "T" accounts, the balances used in the closing entries.

7. Additional savings interest received.

81-1050	Cash - Unrestricted Savings	3,000	
81-3151	Unreserved Fund Balance		3,000

To record interest on savings received
for the rest of the year

Adjusting Entries

In order to account for this fund on an accrual basis, interest accrued at the end of the year must be recorded.

- Interest which has accrued but has not been collected is calculated and recorded.

81-1159	Accrued Interest Receivable	250	
81-3151	Unreserved Fund Balance		250

To record the accrual of interest on savings

Closing Trial Balance

81-1050	Cash - Unrestricted Savings	\$ 53,225	
81-1120	Certificates of Deposit	10,000	
81-1159	Accrued Interest Receivable	250	
81-3151	Unreserved Fund Balance		\$ 63,475
		\$ 63,475	\$ 63,475

Expendable Trust Funds

Opening Entry

- The closing trial balance of the prior year is journalized and entered in the general ledger.

81-1050	Cash - Unrestricted Savings	\$ 2,250	
81-3151	Unreserved Fund Balance		\$ 2,250
		\$ 2,250	\$ 2,250

To record the opening balances

Revenues

Revenues in the Expendable Trust Funds are recorded on a cash basis during the fiscal year. Year-end adjustments are made to convert the basis of accounting in the fund to the modified accrual basis. Generally no adjustments will be made unless the amounts involved are material in amount. Sources of revenue include bequests and donations, gain or loss on investment transactions, savings interest received, investment income received, and transfers from the Nonexpendable Trusts. Investments are illustrated under the subheading "Investments of Excess Cash."

2. Interest is received for the month on savings.

82-1050	Cash - Unrestricted Savings	11	
82-3151	Unreserved Fund Balance		11

To record interest received on savings

Investment of Excess Cash

3. Savings are invested in securities repurchase agreements.

82-1110	Repurchase Agreements	2,000	
82-1050	Cash – Unrestricted Savings		2,000

To record the investment in repurchase agreements

4. The repurchase agreements mature and the receipt is reported.

82-1050	Cash - Unrestricted Savings	2,060	
82-1110	Repurchase Agreements		2,000
82-3151	Unreserved Fund Balance		60

To record the maturity of repurchase agreements

Nonexpense Transfers

Normally the income earned in nonexpendable trust funds will be transferred, periodically, to an expendable revenue trust account. If such income is appropriated, it would generally be transferred and accounted for in the fund where it will be expended.

5. Earnings on Nonexpendable Trusts are transferred to an expendable trust.

82-1050	Cash - Unrestricted Savings	7,525	
82-3151	Unreserved Fund Balance		7,525

To record transfers in from the
Nonexpendable Trust Funds

6. Trust income appropriated to be expended in the General Fund is transferred.

82-3151	Unreserved Fund Balance	3,000	
82-1050	Cash – Unrestricted Savings		3,000

To record transfers to the General Fund

Miscellaneous Entries

The following entry is provided with minimal explanation in order to allow users of this manual to duplicate, through "T" accounts, the balances used in the closing entries.

7. Additional savings interest is added.

82-1050	Cash - Unrestricted Savings	500	
82-3151	Unreserved Fund Balance		500

To record the savings interest received for the rest of the year

Closing Trial Balance

82-1050	Cash - Unrestricted Savings	\$ 7,346	
82-3151	Unreserved Fund Balance		\$ 7,346
		\$ 7,346	\$ 7,346

Other Trust Funds

Other trust funds include Stabilization and Conservation Funds which would be accounted for in a manner similar to the accounting which has been illustrated for Expendable Trust Funds. Amounts raised in the tax levy for investment in the Stabilization and Conservation Funds would be accounted for as an "operating transfer" from the General Fund to Other Trust Funds. Similarly, the utilization of Stabilization and Conservation Funds to fund an expenditure in the General Fund would be classified as an "operating transfer" from Other Trust Funds to the General Fund. (See entry #53 in the General Fund.)

Agency Funds

The following journal entries illustrate the accounting for an Agency Fund, the Guarantee Deposit Fund:

Opening Entry

At the beginning of the fiscal year, account balances from the prior year's ending trial balance should be recorded in the general ledger.

1. The closing trial balance of the prior year is journalized and entered in the general ledger.

89-1040	Cash Unrestricted Checking	\$ 12,500	
89-2550	Guarantee Deposits		\$ 12,500

To record the opening trial balance

		\$ 12,500	\$ 12,500
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Receipts

Receipts in the Agency Funds increase a municipality's liability since they belong to another entity.

2. Deposits are collected.

89-1040	Cash - Unrestricted Checking	8,500	
89-2550	Guarantee Deposits		8,500

To record the receipt of deposits

Expenditures

Expenditures in the agency funds are recognized either when the deposits are returned or when they are transferred to another fund to be applied against expenditures they were intended to guarantee.

3. Deposits are returned.

89-2550	Guarantee Deposits	12,000	
89-1040	Cash - Unrestricted Checking		12,000

To record the return of deposits

Closing Trial Balance

89-1040	Cash - Unrestricted Checking	\$ 9,000	
89-2550	Guarantee Deposits		\$ 9,000
		\$ 9,000	\$ 9,000