

**Manual of Accounting and Financial Reporting for  
Pennsylvania Public Schools**

**CHAPTER 10**  
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# Chapter 10

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## Fiduciary Funds

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**\*\* Updated 3/4/05 \*\***

Fiduciary Funds are used to account for assets held by the LEA, who acts as a trustee or agent. There are two (2) major types of Fiduciary Funds:

- ❖ Trust Funds – established by a formal trust agreement that places restrictions on the use of the fund's assets; And
- ❖ Agency Funds – accounts for the resources of another entity for which the LEA has custodial responsibility.

## **Trust Funds**

### ❖ *Nature And Purpose*

Trust Funds exist where the LEA acts as a trustee for assets placed in its care. The use of a trust fund should be limited to situations where the use of resources is legally restricted by parties outside of the LEA (e.g., formal trust agreement with the donor).

There are three types of trust funds recognized by the GASB for use by governmental entities:

1. Investment Trust Funds – Reports the external portion of investment pools reported by your school.
2. Private-Purpose Trust Funds – Reports escheat property and all trust agreements under which principle and interest benefit individuals, private organizations or other governments. Do not use a private purpose trust fund to account for monies that are available to support school programs. See Note below for information on accounting for trusts that benefit the school operations. If your LEA has an activity that benefits both your school and a private party, you should classify the trust fund according to the predominant beneficiary, rather than in two (2) separate funds. Use a Special Revenue Fund if your LEA is the predominant beneficiary and reserve the “private purpose” portion. Use the private-purpose fund if the “private purposes” has the predominate use of resources in the fund.
3. Pension Trust Funds - Reports pension trust and other employee benefit trusts that are required to be held in trust for members and beneficiaries of defined benefit pension plans, defined contribution plans and other post-employment and employee benefit plans.

**NOTE:** See Chapter 5, Special Revenue Funds, for information regarding accounting for Public Purpose trust funds where the principal and interest benefit your school. Chapter 8 provides information on Permanent Trust funds where only the earnings, but not the principal are used for school purposes.

### ❖ *Basis Of Accounting And Measurement Focus*

Trust Funds are accounted for on the accrual basis of accounting, in the same manner as proprietary funds.

## ❖ Budget

Trust funds do not usually require budgetary accounts or formal budgetary integration since spending is controlled primarily through the trust agreements establishing the funds. However, if the LEA feels formal budgetary accounting will provide the necessary degree of financial control it desires, it may be used. Nonetheless, it is rare to see budget to actual comparisons for trust funds in financial reporting.

## ❖ Financial Statements

The Statement of fiduciary net assets and Statement of changes in fiduciary net assets must be completed as part of each entity's financial statements that reports fiduciary activity.

## **Agency Funds**

LEAs often hold or manage assets as an agent on behalf of others. Agency Funds account for school activities such as various clubs (i.e., drama, Spanish, etc.) and class funds (i.e., the class of 2000). This Section will discuss:

- ◆ The Nature And Purpose Of Agency Funds; And
- ◆ Sample Journal Entries For Agency Funds.

## ❖ Nature And Purpose

Agency Funds exist where the LEA acts as an agent and custodian of funds placed in its care. While both Agency Funds and Trust Funds are classified as fiduciary fund types, the degree of management for Trust Funds is much higher than for Agency Funds. Agency Funds normally only involve the receipt, temporary investment and remittance of assets to the rightful owners. The primary use of Agency Funds for LEAs is for student activity funds.

### **STUDENT ACTIVITY FUNDS**

Students often retain control of funds obtained from sources (i.e., special fund-raising activities) other than the LEA's budget. For example, a trip to Spain for the Spanish Club may be funded through sub sales, car washes and similar fund-raising efforts. The school's principal typically is responsible for overseeing the administration of such student activity funds. Therefore, a separate designation for activity funds is provided in the chart of accounts in this Manual. Activity funds are accounted for in the 80 series of account numbers. The major fund designation of 80 can be

subdivided into sub-accounts (i.e., 81, 82, etc.) to accommodate the LEA's specific requirements for the various activities (e.g., science club, student council, etc.). Student activity funds are addressed in Section 511 of the Public School Code.

## **PASS-THROUGH FUNDS**

Pass-through grants are those grants that are received by a recipient government to transfer to or spend on behalf of a secondary recipient. GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, establishes accounting and financial reporting standards for pass-through grants. As a general rule, recipient governments should recognize all cash pass-through grants as revenue and expenditures or expenses in a governmental, proprietary or trust fund. The chart of accounts list revenue and expenditure account codes that are associated with Pass-Through Funds.

### ❖ **Basis Of Accounting And Measurement Focus**

Agency Funds are purely custodial (i.e., assets equal liabilities). No fund equity is reported in Agency Funds. Agency Funds do not report operations (revenues and expenditures) and therefore, do not have a measurement focus. However, assets and liabilities should be accounted for on the modified accrual basis of accounting.

The accounting for Agency Funds occurs during the operating year. However, only assets and corresponding liabilities are reported on the Statement of fiduciary net assets. Agency funds are not reported on the Statement of changes in fiduciary net assets.

### ❖ **Number Of Funds**

Separate Agency Funds are used for individual agency relationships. Activity funds are addressed specifically in Section 511 of the Public School Code. Implied in Paragraph (d) of this Section is that the funds of each school, class, organization, club, society, or group thereof is to be maintained as a separate fund.

### ❖ **Budgets**

Since Agency Funds are custodial in nature, formal budgetary accounting is not necessary. Accordingly, it is rare to see budget to actual comparisons for Agency Funds in financial reporting.

### ❖ **Accounting**

Student activity funds must be included within the school's financial statements. All Agency Fund transactions simply increase or decrease assets and liabilities.

## **Chapter 10**

### *Fiduciary Funds*

## **10.4**

## ACTIVITY FUNDS AND SALES TAX

When a public school purchases taxable property such as candles, magazines, etc. for resale to raise funds, the public school must pay the applicable sales tax at the time of purchase, or collect the sales tax from the customer when the item is resold. If sales tax is paid to the vendor when purchasing the taxable item, the school can reimburse itself by adding the amount of tax paid to the charge to customers when the item is resold.

If the school organization operates a school store, sells pictures, class rings, and/or yearbooks, or sells property or services to the public, then the sale would require the collection and remission of the tax directly to the Department of Revenue.

If a public school or related school organization has any questions regarding its responsibilities under the law, they should contact the Department of Revenue, Sales Tax Division, P.O. Box 8902, Harrisburg, PA 17105.

## UNEXPENDED SENIOR CLASS FUNDS

Each school board should establish a policy to transfer unused/uncommitted funds to a Student Body Activity account or similarly named account. In 1989, a Common Pleas Court ruling determined that ownership of money leftover in student activity funds following the graduation of each senior high school class is vested in the school district, and the funds must be used to further a school-related purpose pursuant to the Public School Code of 1949, 24 O.S. Section 5-511. Maintaining the funds for future class reunions are not a legitimate use of the funds. The graduating class should designate how the remaining funds are to be spent for school related purposes or the board policy will dictate the usage of the funds.

(Ex. 10-1) The senior class earns \$1,500.00 by sponsoring car washes. The car wash facilities and supplies were donated by various service station dealers.

81-0101 Cash	\$	1,500.00	
81-0496 Due To Class of 20XX			\$ 1,500.00

*To record receipts from car washes.*

(Ex. 10-2) The senior class receives accrued interest on class funds they had invested.

81-0101 Cash	\$	200.00	
81-0114 Interest Receivable			\$ 200.00

*To record cash received for accrued interest on investments.*

(Ex. 10-3) The senior class decides to spend an estimated \$2,300.00 on a senior trip before graduation. The class sponsor is advanced \$2,300.00 to pay the anticipated expenses (a member of the high school faculty acts as the class sponsor). Documented expenses after-the-fact amount to \$2,200.00, and the class sponsor returns \$100.00

81-0496 Due To Class of 20XX	\$	2,300.00	
81-0101 Cash			\$ 2,300.00

*To record cash advance to class sponsor.*

81-0101 Cash	\$	100.00	
81-0496 Due To Class of 20XX			\$ 100.00

*To record cash returned by class sponsor.*

(Ex. 10-4) \$1,400.00 in unused funds remain in the senior graduating class fund at graduation. According to board policy, this balance becomes the property of the school district. The trial balance of the senior class at graduation is:

Assets

Cash	\$	1,480.00	
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Liabilities

Due To Student Council	\$		1,480.00
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The following entries will close out the senior class fund:

Agency Fund – Senior Class

81-0496 Due To Student Council	\$	1,480.00	
81-0101 Cash			\$ 1,480.00

*To close out the fund for the senior class.*

Student Council Account

10-0101 Cash	\$	1,480.00	
10-6920 Contributions And Donations			\$ 1,480.00

*To record donation from the senior class.*

## **Organizations not part of the school**

Funds that belong to outside organizations such as booster clubs and PTOs should not be accounted for as agency funds. These types of funds do not belong to the school and should not be accounted for on the school's books. These groups should operate independently from the school. The school's board must adopt a policy regarding the accounting of monies from outside organizations.