Welcome to SAO’s
2\textsuperscript{nd} Annual BARS Update Webinar
– Cash Basis

Handout packet for October and November 2020
2nd Annual BARS Update Webinar – Code Word Tracker

Use this form to help track the code words for CPE during the webinar!

To earn CPE the code words must be submitted on the survey which is available after the presentation.

The code words must be submitted in the same order they appear during the presentation.

<table>
<thead>
<tr>
<th>Code Word #</th>
<th>The code word is…</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
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<td>7</td>
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<td>8</td>
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</tr>
</tbody>
</table>

Don’t forget to complete the survey and earn your CPE!

Thank you for attending!
Asset Retirement Obligations

Asset Retirement Obligations are legally enforceable liabilities associated with the retirement of a tangible capital asset. Examples of assets that could qualify as asset retirement obligations include an asset that may require decommissioning at a substantial cost to a government or an asset that operates in special industries that may require special disposal (X-ray machines, nuclear reactors, sewer ponds, etc.).

CASH Basis

**Online Filing** – Once an estimate can be made and it is probable that the government will be obligated to pay the liability, it will be reported on the Schedule 09.

**C4** – Report as an expense once the event happens.

**Notes** – See Note X – Pollution Remediation/Retirement of Certain Assets

Resources


**Identifying Asset Retirement Obligations** – Available on SAO Website: [https://sao.wa.gov/improving-government/resources-database/](https://sao.wa.gov/improving-government/resources-database/) and searching “asset retirement” in the search box.

Notes
Fiduciary Activities

Fiduciary activities can occur when governments take care of money that belongs to individuals or other outside governments.

What is changing?
Clarification of what is classified as a fiduciary activity.
Elimination of Agency Funds and creation of Custodial Funds

Updates to fund categories

<table>
<thead>
<tr>
<th>Fund Category</th>
<th>Cash</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension and OPEB Trust Funds</td>
<td>No signification change in use</td>
</tr>
<tr>
<td>Private Purpose Trust Funds</td>
<td>No signification change in use</td>
</tr>
<tr>
<td>Investment Trust Funds</td>
<td>Counties may have changes in use</td>
</tr>
<tr>
<td>Custodial Funds</td>
<td>Potential signification change in use from “Agency Funds”</td>
</tr>
<tr>
<td>External Investment Pool Fund</td>
<td>Counties only</td>
</tr>
</tbody>
</table>

Cash Basis

**Online Filing** – Changes to Schedule 01, fund codes, and fiduciary BARS codes

**C5** – Formatting and fund name changes

**Notes** – The Deposit & Investment Note must tie to the C5.

*Evaluation of all activities for fiduciary applicability required*

Resources

**Fiduciary Activities Criteria**

1. **Does the government control the asset? ¶12**
   - NO: The activity would not be reported
   - YES: Are the assets derived solely from the government’s own-source revenue? ¶11b1
     - NO: The assets would be reported with the governmental or business-type activities
     - YES: Are the assets derived from government-mandated nonexchange transactions or voluntary nonexchange transactions? ¶11b2
       - NO: Are the assets held in a trust or equivalent arrangement and the government itself is not a beneficiary? ¶11c1
         - NO: Are the assets for the benefit of individuals and the government does not have administrative involvement or direct financial involvement? ¶11b2
           - NO: Are the assets for the benefit of organizations or other governments that are not part of the financial reporting entity? ¶11c3
             - NO: The activity would be reported with the governmental or business-type activities
             - YES: The activity would be reported in a fiduciary fund
           - YES: The activity would be reported with the governmental or business-type activities
         - YES: Are the assets for the benefit of organizations or other governments that are not part of the financial reporting entity? ¶11c3
           - NO: The activity would be reported with the governmental or business-type activities
           - YES: The activity would be reported in a fiduciary fund
       - YES: Are the assets held in a trust or equivalent arrangement and the government itself is not a beneficiary? ¶11c1
         - NO: Are the assets for the benefit of organizations or other governments that are not part of the financial reporting entity? ¶11c3
           - NO: The activity would be reported with the governmental or business-type activities
           - YES: The activity would be reported in a fiduciary fund
         - YES: Are the assets for the benefit of organizations or other governments that are not part of the financial reporting entity? ¶11c3
           - NO: The activity would be reported with the governmental or business-type activities
           - YES: The activity would be reported in a fiduciary fund

*These questions have two parts. The second part is: Are the assets you are holding for the individual/government/organization come from you providing a good or service to the recipient? – If Yes, not fiduciary. If No, it is fiduciary.*
The five categories now be available for CASH-basis governments for reporting cash and investment balances in reporting year 2020.

<table>
<thead>
<tr>
<th>Category</th>
<th>BARS Code</th>
<th>Definition</th>
<th>CASH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non- spendable</td>
<td>30821 Beginning 50821 Ending</td>
<td>Either (a) not in a spendable form (GAAP only) or (b) legally or contractually required to remain intact (GAAP and Cash).</td>
<td>Used only for: Permanent Funds and Private Purpose Trust</td>
</tr>
<tr>
<td>Restricted</td>
<td>30831 Beginning 50831 Ending</td>
<td>Externally imposed by creditors, grantors, contributors, laws or regulations of other governments; or imposed by law through constitutional provision or enabling legislation.</td>
<td>Examples: Fiduciary Activities, grants with specific spending requirements, debt, certain taxes with legal restrictions, etc.</td>
</tr>
<tr>
<td>Committed</td>
<td>30841 Beginning 50841 Ending</td>
<td>The highest level of decision making authority for a specific purpose in a formal action that remains binding unless removed through similar action.</td>
<td>Example: Council passes an ordinance that sets aside $1,000 per month for beautification.</td>
</tr>
<tr>
<td>Assigned</td>
<td>30851 Beginning 50851 Ending</td>
<td>The intent to use funds for a specific purpose expressed by the governing body itself, a committee, or official to which the governing body has delegated the authority to assign amounts to.</td>
<td>Example: The Finance Director was delegated authority to assign. They chose to earmark funds for new copiers for the district.</td>
</tr>
<tr>
<td>Unassigned</td>
<td>30891 Beginning 50891 Ending</td>
<td>All other funds that are not reported in the categories above.</td>
<td>Only the general fund should report a positive unassigned balance, all other governmental funds may report a negative unassigned balance.</td>
</tr>
</tbody>
</table>
CASH Basis

**Online Filing** – New BARS codes, effective for reporting year 2020

**C4/C5** – Formatting changes and name changes.

Resources

**Cash BARS Manual** –

**Looking Forward to Cash** –

Notes
3. ACCOUNTING

3.1 Accounting Principles and Internal Control

3.1.8 Beginning and Ending Cash and Investments Classifications

3.1.8.10 There are often limitations on how all or a portion of a government’s resources can be spent. Accordingly, the BARS manual requires beginning and ending cash and investments be classified as nonspendable, restricted, committed, assigned, or unassigned. These classifications indicate “the extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent.” The classifications reflect these limitations and inform management and financial statement users how much of the government’s resources are reserved for a specific purpose or use and how much is freely available for spending.

3.1.8.20 BARS accounts 3082100 and 5082100 define the beginning and ending nonspendable cash and investments as the amounts of cash and investments that according to laws or contracts cannot be spent. This category applies to items like permanent endowments when the donor stipulates that the principal amount of the contribution must be preserved and invested and only the earnings can be used for governmental purposes. This category can only be used in permanent (700) and trust (600) funds.

3.1.8.21 BARS accounts 3083100 and 5083100 define the beginning and ending restricted cash and investments as the amounts of cash and investments that is subject to externally enforceable legal restrictions (imposed by creditors, grantors, donors, other governments, etc.). The restrictions may also be imposed by law through constitutional provisions or enabling legislation. For more information on external restrictions please see BARS manual 3.1.8.40 below.

3.1.8.22 BARS accounts 3084100 and 5084100 define the beginning and ending committed cash and investments as the amounts of cash and investments that is constrained by specific limitations that the government imposes upon itself at the highest level of decision making (normally the governing body) through the most binding formal action (e.g. resolution, ordinance, etc.) and that remains binding unless removed in the same manner. For more information on internal restrictions please see BARS manual 3.1.8.50 below.

3.1.8.30 BARS accounts 3085100 and 5085100 define the beginning and ending assigned cash and investments as the amounts of cash and investments that reflects a government’s intended use of resources. These are amounts intended to be used by the government for specific purposes that are neither restricted nor committed. Intent can be expressed in one of two ways:

- The governing body can state its intent to use resources for a specific purpose. The intent would be expressed in an informal way such as a motion or other form of a directive.
- The governing body can delegate authority to others (e.g., finance or executive director, chief, head of a department, manager, etc.) to express intent to use amounts for specific purposes. Any transfer of resources to funds other than the general fund represents an assignment since the transfer represents the intent for those resources to be used for a specific purpose.

3.1.8.31 BARS accounts 3089100 and 5089100 define the beginning and ending unassigned cash and investments as the amounts of cash and investments that are remaining after classifying amounts as nonspendable, restricted, committed, or assigned. Unassigned amounts are technically available for any purpose. The general fund is the only fund that can have a positive unassigned cash and investments balance since all other funds represent a specific purpose for their resources.
External Restrictions

3.1.8.40 Any constraints on the purpose or use of resources imposed by an external party constitutes restricted classification. Any cash and investment balance subject to these restrictions must be reported as restricted. The purpose of externally restricted revenue does not need to be narrower than the purpose of the fund; however, it has to be imposed by an external party. For example:

Unspent resources contributed by other governments in accordance with an interlocal agreement (contract) for future replacement of a building would be classified as restricted because they are subject to a specific external restriction.

Unspent operating assessments received by a government would not be classified as restricted even though it’s received from an external party. This could be classified as committed, assigned, or unassigned because such resources are not subject to specific restrictions but may be used for any allowable purpose of the government.

Any unspent taxes restricted by RCW for a specific purpose (e.g., hotel/motel tax, etc.)

Internal Commitments

3.1.8.50 If the government’s highest level of authority (e.g., board of commissioners, city council, board of directors, board of supervisors, etc.) imposes specific restrictions on the use of resources through the most binding formal action (resolution or ordinance), the unspent portion at the year-end would be considered committed and may be reported as such.

A motion, plan or stated management intent regarding how resources will be used does not meet criteria for classifying balances as committed because the commitment has to occur at the highest level of authority through the most binding formal action. While commitments may be removed, it would take that same level of authority and level of formal action to do so. For example:

A cash balance in a capital project fund saved for future replacement of a building after verbal direction by city council members at a council meeting would not be classified as committed because the commitment was not established by the most binding formal action (resolution or ordinance).

3.1.8.60 Balances should be classified as committed when the government dedicates resources for a specific purpose, but not if only generic or functional limitations are imposed. For example:

A cash balance in a special revenue fund committed by commissioners for transportation purposes would not be classified as committed balance because the commitment “for transportation” is not specific enough to create limitations.

The limitation should be narrower than the governmental function or even activity. While resources designated for “public safety”, “park and recreation” or “public health” would not be considered committed; the designations for “new dispatch equipment”, “purchase of additional land to expand existing park”, or “cleaning the hazardous area XYZ” would be.

3.1.8.70 Budget documents approved by resolution or ordinance also do not meet criteria for classifying balances as committed because the budget only represents the government’s authorized spending during the period, rather than a constraint on remaining balances at year end. In other words, a budget deals with plans for anticipated revenues and expenditures – resources not yet collected and expenditures not yet incurred – whereas an internal commitment imposes a permanent constraint on currently existing financial resources.
Fund Perspective

3.1.8.80 The classification of cash and investments does not reflect any government-wide limitations preventing resources of one fund being spent for purposes of another fund. In other words, any constraints based solely on the purpose of the fund itself would not require classification as restricted. Such constraints imposed by RCW 43.09.210 are both generic and already evident from the fund title, classification and description in the notes. For example:

*All revenues generated by water sales can only be spent on water related activities and cannot be transferred to general fund to be spent for other governmental purposes. Within the water fund, unspent proceeds of bonds issued for capital improvement are restricted to this particular project (a specific, externally imposed restriction). In this case, the cash and investments balance classification will include restricted cash and investment for unspent proceeds of bonds and the appropriate committed or assigned balances for everything else that can be spent for any water purposes.*

3.1.8.90 Also, resources with external restrictions and internal commitments are classified in either restricted or committed regardless of what fund they are reported in. The external restriction, internal commitments, and subsequent classification of restricted and committed remain tied to the resources no matter which fund they are reported in and if the resources are transferred to other funds. For example:

*Unspent hotel/motel tax would be classified as restricted regardless of whether it is accounted for in the general fund, a special revenue fund, or a capital project fund because it is subject to a specific external restriction. The hotel/motel tax resources remains restricted until the resources are fully spent. If the legislative body passed a resolution or ordinance to set aside (commit) a certain amount of money (from resources that are not restricted or committed) to be used only for tourism purposes, the fund where the unspent amount is held would be reported as committed.*

The unassigned classification in the general fund does not mean resources are not subject to any limitations whatsoever. It means that there are no specific external restrictions or internal commitments that constrain spending that money for any allowable use and purpose of the government).

Emergency Funds, Savings Accounts, and Rainy Day Funds

3.1.8.100 Sometimes a legislative body sets aside an amount of money for the purpose of paying expenditures when there is a budgetary shortfall. Since these resources would be available for any purpose or use if needed, they should be classified as unassigned in the general fund unless the resolution stipulates a way that represents an actual constraint. Even if the resolution or ordinance stipulates that the money cannot be spent for any other circumstance, this limitation does not constitute commitment. Purpose refers to the object of spending or usage, rather than circumstances. That is, purpose limitations establish what the cash and investment balance can be spent for, not the circumstances under which the resources can be spent. The same concept applies to emergencies. An emergency is not the purpose of spending but a circumstance when the spending occurs.

3.1.8.110 Sometimes a legislative body creates a “reserve” fund that is a managerial fund in nature through resolution or ordinance to set money aside for a different purpose. These managerial funds are generally rolled-up into the general fund for reporting purposes. Creation of a fund and designation of cash and investment balances are two different issues. Merely creating fund to hold money destined for a specific purpose does not automatically classify the entire cash and investment balance as committed or assigned. A managerial fund of a propriety fund would be rolled-up into its primary operating propriety
fund and therefore is created out of at least assigned cash and investment balances and would continue to be reported as such. The reserve fund may contain resources from many different sources and not all of them may be restricted or committed for the fund objective. Again, the purpose of the fund is separate from the constraints and limitations imposed on all resources designated for such a purpose.

When creating a new fund, please refer to Fund Types and Accounting Principles for proper fund type and reporting.

3.1.8.120 An adopted minimum cash and investment balance policy would not meet the criteria to classify ending balances as committed. Such a policy only represents a target amount that the local government believes should be maintained to provide a reasonable level of assurance in the day-to-day operations, and not a specific constraint on the purpose or use of any resources. For financial reporting purposes, such a policy may be disclosed, but would not affect classification of ending balances.

Flow of Funds Assumptions
3.1.8.130 The government may establish a policy for its intended order of use of classification balances when an expenditure is incurred in which restricted, committed, and assigned cash and investment balances can be used to pay the expenditure. In absence of an approved policy it is assumed that the government will use the most restricted cash and investment balance first.

3.1.1.140 Reporting a Negative Cash and Investment Classification Balance
The classification of cash and investment balances as restricted and committed based on their respective allowable purposes will reduce the available ending cash and investment balances to be classified as assigned, and if in the general fund unassigned, in the fund in which the government is reporting. A government should not spend restricted or committed resources on any activity that does not support the requirement that led to the restricted or committed classification. Additionally, the government can only spend the available balance of restricted and committed resources that are on hand and in cash or investment deposits. Therefore reporting negative restricted or committed cash and investment balances is not allowed. The government must reduce assigned, and if in the general fund unassigned, cash and investment balances to account for payment of expenditures that would (or will) be paid from restricted or committed cash and investment balances that the government is expecting to receive as well as for expenditures paid by the available cash in the fund that were not attributed to the allowable purpose of the restricted or committed classifications.

The classifications of the available cash and investment balances to restricted and committed, as well as the evaluation of the use of available cash in the reported fund, could result in the reporting of a negative cash and investment unassigned balance, if the government has used restricted balances to pay expenses that were not related to the restricted or committed cash and investments that the government has received. The assignment of resources should not create a negative unassigned cash and investment balance, therefore a government should reduce the assigned cash and investment balance down to cover the negative unassigned cash and investment balance. The government is not allowed to report negative assigned cash and investment balances.

On the rare occasion that a government needs to report a negative cash and investment balance in any fund, that negative balance must be classified in the unassigned cash and investment category. This is the only time unassigned can be used outside of the general fund.
Cash Basis - Court Accounting

*Cities and Counties with their Own Court*

1. AOC Codes (386/586) *Fiduciary*

2. *Revenues* for Fines and Fees
   BARS Codes 35P.PP.PP

3. *Revenue* from State
   Generally BARS Codes 336.PP.PP

*Administrative Office of the Courts (AOC)*

*Local Government*
Cities and Counties that Contract for Court

1. **Revenues** for Fines and Fees
   BARS Codes 35P.PP.PP

2. **Payment** for Court Service
   BARS Code 512.50.PP
Cities and Counties that Provide Court Services for Others (cash basis)