Budgeting, Accounting and Reporting System (BARS)

BARS Prior to

*Fiduciary Activities*

Implementation

This is not the whole BARS manual. It contains excerpts of the BARS manual chosen for the purpose of providing guidance on Delayed Implementation of Fiduciary Activities. Please see the full BARS manual at

[www.sao.wa.gov](http://www.sao.wa.gov)

For Cities, Counties and Special Purpose Districts

Published 5/7/2020
3. ACCOUNTING

3.1 Accounting Principles and Internal Control

3.1.7 Fund Types and Accounting Principles

3.1.7.10 The following principles are basic rules of accounting and financial reporting for cash based cities, counties, and special purpose districts.

3.1.7.20 ACCOUNTING AND REPORTING CAPABILITIES

A governmental accounting system must make it possible to determine and demonstrate compliance with finance related legal and contractual provisions.

3.1.7.30 FUND ACCOUNTING SYSTEMS

A governmental accounting system 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 recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

3.1.7.40 BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures are recognized and reported in the financial statements.

Revenues are recognized only when cash is received and expenditures are recognized when chargeable against the report year’s budget appropriations as required by state law. This generally results in revenues being recognized when delivered to the government or government’s agent and expenditures being recognized when paid. Warrants and checks are considered paid when issued. An exception to expenditure recognition would be during any open period after the close of the fiscal year when expenditures can be charged against the previous period for claims incurred in the previous period. Open periods are required by statute for cities (RCW 35.33.151 and RCW 35A.33.150) and allowed for counties (RCW 36.40.200). Special purpose districts which use the county or a city as their treasurer may use the same open-period as their treasurer. If a district acts as its own treasurer, no open period is allowed by statute.

Revenues and expenditures should be reported at gross amounts by account and not netted against each other.

Revenues and expenditures should be recognized for all receipts and payments of a government’s resources, including those where the cash is handled by an agent (such as a bank, underwriter, etc.) on behalf of the government rather than handled directly by the local government. For example, debt proceeds wired directly to an escrow account, payments by the State Treasurer’s Office to vendors for items purchased with LOCAL resources, etc.

Interest earned on investments may be recognized at cost, amortized cost or fair value in accordance with the government’s disclosed accounting policy.

In addition, revenue and expenditures should also be recognized when the government agrees to forgo
revenue in exchange for reduction of expenses (offsetting agreement) or receipt of an asset (e.g., acquiring an asset in exchange for reduced permit fees, etc.). In such cases, the transaction should be recorded as if the cash was received and expended in order to reflect the legal transaction.

This basis results in no reported assets other than cash and investments and no reported liabilities. For example, purchases of capital assets are expensed during the year of acquisition without any capitalization of capital assets or allocation of depreciation expense. However, please be aware that certain liabilities should be reported on Schedule 09 and in the notes in financial statements.

3.1.7.50 TYPES OF FUNDS

In fund financial statements, governments should report governmental, proprietary, and fiduciary funds to the extent that they have activities that meet the criteria for using these funds.

Presented below is a system to classify all funds used by local government and the assignment of code numbers to identify each type of fund. A three digit code is used: the first digit identifies the fund type and the next two digits will be assigned by the governmental unit to identify each specific fund.

Since counties account for special purpose districts in their accounting systems as agency funds, they often provide the districts with reports showing assigned fund codes 630-699. These codes refer to the fund from the county perspective. A district has to “reassign” the county code to the code appropriate to the fund type it is reporting (e.g., if the district’s general fund is coded in the county records as 663, the district in its annual report has to code this fund as 001).

For reporting purposes local governments are required to follow the described below fund structure. However, the local governments may create other funds for accounting or managerial purposes. When preparing external financial reports, those accounting or managerial funds should be rolled to appropriate fund types (e.g., there should be only one general fund or if an entity accounts separately for operating, capital or/and debt activities of its proprietary function, those activities should be rolled up into the appropriate enterprise fund, etc.)

Governmental Funds

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>000</td>
<td>General (Current Expense) Fund – should be used to account for and report all financial resources not accounted for and reported in another fund. For reporting purposes the local government can have only one general fund. Although a local government has to report only one general fund in its external financial reports, the government can have multiple general subfunds for its internal managerial purposes. These managerial subfunds have to be combined into one general fund for external financial reporting.</td>
<td></td>
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<tr>
<td>100</td>
<td>Special Revenue Funds – should be used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. Restricted revenues are resources externally restricted by creditors, grantors, contributors or laws or regulations of other governments or restricted by law through constitutional provisions or enabling legislation. Committed revenues are resources with limitations imposed by the highest level of the government (e.g., board of commissioners, city council, etc.) through a formal action (resolution, ordinance) and where the limitations can be removed only</td>
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</tbody>
</table>
by a similar action of the same governing body. Revenues do not include other financing sources (long-term debt, transfers, etc.).

The term *proceeds of specific revenue sources* establishes that one or more specific restricted or committed revenues should be foundation for a special revenue fund. They should be expected to continue to comprise a substantial portion of the inflows reported in the fund. It is recommended that at least 20 percent is a reasonable limit for restricted and committed revenues to create a foundation for a special revenue fund. Local governments need to consider factors such as past resource history, future resource expectations and unusual current year inflows such as debt proceeds in their analysis.

They may use the calculation below to determine whether an activity would qualify for reporting as a special revenue fund.

\[
\text{Substantial portion of inflows} = \frac{(\text{restricted revenues} + \text{committed revenues})}{\text{total resources* reported in the fund}}
\]

*Total resources would include all revenues and other financing sources.

Other resources (investment earnings and transfers from other funds, etc.) also may be reported in the fund if these resources are restricted, committed, or assigned (intended) to the specific purpose of the fund.

Governments should discontinue reporting a special revenue fund, and instead report the fund’s remaining resources in the general fund, if the government no longer expects that a substantial portion of the inflows will derive from restricted or committed revenue sources.

All revenues have to be recognized in the special revenue fund. If the resources are initially received in another fund, such as the general fund, and subsequently remitted to a special revenue fund, they should not be recognized as revenue in the fund initially receiving them. They should be recognized as revenue in the special revenue fund from which they will be expended. So, the local governments can either receive resources directly into the special revenue fund, or account for the resources as agency deposits in the receiving fund and, after remitting them, recognize them as revenue to the special revenue fund.

Special revenue funds should not be used to account for resources held in trust for individuals, private organizations, or other governments.

The state statutes contain many requirements for special funds to account for different activities. The legally required funds do not always meet standards for external reporting. So, while the local governments are required to follow their legal requirements, they will have to make some adjustment to their fund structure for external financial reporting.

**Debt Service Funds** – should be used to account for and report financial resources that are restricted, committed, or assigned (intended) to expenditure for principal and interest. Debt service funds should be used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years also should be reported in debt service funds. The debt service transactions for a special assessment for which the government is not obligated in any
matter should be reported in an agency fund. Also, if the government is authorized, or required to establish and maintain a special assessment bond reserve, guaranty, or sinking fund, it is required to use a debt service fund for this purpose.

Use enterprise funds (400) for debt payments related to utilities and other business activities.

300 Capital Projects Funds – should be used to account for and report financial resources that are restricted, committed, or assigned (intended) for expenditure for capital outlays including the acquisition or construction of capital facilities or other capital assets. Capital outlays financed from general obligation bond proceeds should be accounted for through a capital projects fund. Capital project funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments (private-purpose trust funds).

Use enterprise funds (400) for capital projects related to utilities and other business activities.

700 Permanent Funds – should be used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government’s programs – that is for the benefit of the government or its citizens (public-purpose). Permanent funds do not include private-purpose trust funds which account for resources held in trust for individuals, private organizations, or other governments.

Proprietary Funds

400 Enterprise Funds – may be used to report any activity for which a fee is charged to external users for goods or services. Enterprise funds are required for any activity whose principal revenue sources meet any of the following criteria:

- Debt backed solely by a pledge of the net revenues from fees and charges.
- Legal requirement to recover cost. An enterprise fund is required to be used if the cost of providing services for an activity including capital costs (such as depreciation or debt service) must be legally recovered through fees or charges.
- Policy decision to recover cost. It is necessary to use an enterprise fund if the government’s policy is to establish activity fees or charges designed to recover the cost, including capital costs (such as depreciation or debt service).

These criteria should be applied in the context of the activity’s principal revenue source.

The term activity generally refers to programs and services. This term is not synonymous with fund. As a practical consequence, if an activity reported as a separate fund meets any of the three criteria, it should be an enterprise fund. Also, if a “multiple activity” fund (e.g., general fund) includes a significant activity whose principal revenue source meets any of these three criteria, the activity should be reclassified as an enterprise fund.
The determination of an activity’s **principal revenue source** is a matter of professional judgement. A good indicator of the activity’s significance may be comparing pledged revenues or fees and charges to total revenue. For example, consider a county auditor’s office that charges fees to provide a payroll service to various taxing districts. Even if the fee is meant to cover the cost of the service, the county auditor function as a whole is primarily supported with tax dollars from the general fund. It would be allowable in this case to leave the activity all within general fund.

Finding an appropriate fund type requires a careful analysis since there is not always a clear choice. For example, building permit fees may be accounted for in the general fund or a special revenue fund in certain circumstances, such as when they are partially supported by taxes. However, if there is a pricing policy to recover the cost of issuing those individual building permits, they should be reported in an enterprise fund.

Separate funds are not required for bond redemption, construction, reserves, or deposits, for any utility. If separated, use 400 series number. Separate funds are not required even though bond covenants may stipulate a **bond reserve fund**, **bond construction fund**, etc. The bond covenant use of the term **fund** is not the same as the use in governmental accounting. For bond covenants, **fund** means only a segregation or separate account, not a self-balancing set of accounts.

Local governments may separate operating, capital projects and debt functions of enterprise funds. However, when reporting such proprietary activities, all those functions should be contained in one fund.

500 **Internal Service Funds** – may be used to report any activity that provides goods or services to other funds, departments or agencies of the government, or to other governments, on a cost-reimbursement basis. Internal service funds should be used only if the reporting government is the predominant participant in the activity. Otherwise, the activity should be reported in an enterprise fund.

**Fiduciary Funds**

Note: The new definitions of fiduciary funds are required for reporting fiduciary activities in FY 2019 (i.e., reports submitted in 2020). Additional information regarding these changes is available here.

**Code**

600 **Fiduciary Funds** – should be used to account for assets held by a government in a trustee capacity or as a custodian for individuals, private organizations, other governmental units, and/or other funds. These include (a) investment trust funds, (b) pension (and other employee benefit) trust funds, (c) private-purpose trust funds, and (d) custodial funds.

600-609 **Investment Trust Funds** – should be used to report fiduciary activities from the external portion of investment pools and individual investment accounts that are held in a trust that meets the following criteria: 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) legally protected from the creditors of the government.

610-619 Pension (and Other Employee Benefit) Trust Funds – should be used to report fiduciary activities for pension plans and OPEB plans that are administered through qualifying trusts. Qualifying trusts are those in which:

- Contributions to the plan, and earnings on those contributions, are irrevocable. Pay-as-you-go plans do not qualify because they are “payments,” not contributions.
- Plan assets are dedicated solely to providing benefits to plan members in accordance with the benefit terms. Different plans (for example a pension and an OPEB plan) cannot be commingled in the same trust. The assets must be partitioned for specific plans.
- Plan assets are legally protected from creditors.

If you are acting as administrator for someone else’s pension/OPEB plans, the plans still must meet the criteria above to be reported in a trust fund.

620-629 Private-Purpose Trust Funds – should be used to report all fiduciary activities that (a) are not required to be reported in pension (and other employee benefit) trust funds or investment trust funds, and (b) are held in a trust that meets the following criteria: 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) legally protected from the creditors of the government.

630-698 Custodial Funds – should be used to report all fiduciary activities that are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds or private purpose trust funds. The external portion of the investment pools that are not held in trust that meets criteria listed above should be reported in a separate external investment pool fund column under the custodial funds classification.

699 External Investment Pool Fund – The external portion of the investment pools that are not held in trust and meet criteria listed above. Although this is consider a custodial fund, it should be reported in a separate external investment pool fund column under the custodial funds classification.

NOTE: The custodial funds are required to be used by business-type activities and enterprise funds, if the assets, upon receipt, are normally expected to be held for more than three months.

3.1.7.60 NUMBER OF FUNDS

Governments should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established. Using numerous funds results in inflexibility, undue complexity, and inefficient financial administration.

Local governments should periodically undertake a comprehensive evaluation of their fund structure to ensure that individual funds that became superfluous are eliminated from accounting and reporting.

Elected officials should be educated to the fact that accountability may be achieved effectively and efficiently by judicious use of department, program and other available account coding or cautious use of managerial (internal) funds.
3.1.7.70 BUDGETING, BUDGETARY CONTROL, AND BUDGETARY REPORTING

a. An annual/biennial budget must be adopted by every government.
b. The accounting system should provide the basis for appropriate budgetary control.
c. Budgetary comparisons must be included in the appropriate financial statements and schedules for funds for which an annual/biennial budget has been adopted.

3.1.7.80 TRANSFER, REVENUE AND EXPENDITURE ACCOUNT CLASSIFICATIONS

a. Interfund transfers, proceeds of general long-term debt issues and material proceeds of capital asset disposition should be classified separately from fund revenues and expenditures.
b. Governmental fund revenues should be classified by fund and by the sources indicated in Revenue/Expenditure Accounts. Expenditures should be classified by fund and by the categories indicated in Revenue/Expenditure Accounts.
c. Proprietary fund revenues and expenses should be classified in essentially the same manner as those of similar business organizations, functions, or activities.

3.1.7.80 COMMON TERMINOLOGY AND CLASSIFICATION

A common terminology and classification should be used consistently throughout the budget, the accounts, and the financial reports of each fund.

3.1.7.90 INTERIM AND ANNUAL FINANCIAL REPORTS

a. Appropriate interim financial statements and reports of operating results and other pertinent information should be prepared to facilitate management control of financial operations, legislative oversight, and, where necessary or desired, for external reporting purposes. (RCW 35.33.141, RCW 35A.33.140 and RCW 36.40.210)

b. Annual reporting requirements are prescribed by the State Auditor’s Office. See Reporting Requirements and Filing Instructions for Cities and Counties or Reporting Requirements and Filing Instructions for Special Purpose Districts for details.
### 4.3.13 Financial Statements

#### Fiduciary Fund Resources and Uses Arising from Cash Transactions (C-5)

#### Applicability

4.3.13.10 Statement C-5 should be prepared for all trust and custodial funds. Exclude all payroll and claims clearing funds. Statement C-5 does not need to be prepared if the government is filing the required schedules using the SAO Online Filing. The SAO online reporting system will automatically generate this Statement.

4.3.13.15 Local governments are **required** to update the incorrect financial statements. The requirement applies to all errors found prior or during an audit.

4.3.13.20 Local governments with total revenues of $2 million or less are not required to prepare C-4 or C-5 statements unless debt covenants, a contract, a grantor or the city/county/district’s legislative body requires the city/county/district to prepare the financial statements or to receive a financial statements audit. If this request is made, C-4 and C-5 statements and notes should be prepared. The $2 million threshold calculation excludes any proceeds from issuance of long-term debt and resources held by the government in its fiduciary capacity. Local governments which choose not to prepare C-4 and C-5 statements must have their budgeted information available for the audit.

4.3.13.30 If more than $750,000 in federal funding was expended by the government during the year and a federal single audit is required, the government must prepare financial statements if it has expenditures of federal funds from more than one program or cluster. However, a government that normally does not prepare financial statements may not need to prepare them for the single audit if it has expenditures from only one program or cluster. Governments should consult with their local SAO team or the SAO [HelpDesk](mailto:support@saorgov.gov) if they have questions about this requirement.

#### Instructions

4.3.13.40 a. To prepare, enter beginning cash and investments. Enter any adjustments related to prior periods (net 3881000 and 5881000). Then enter total additions (310-390) and total deductions (510-590). Then foot the statement to calculate ending cash and investments.

   b. **Beginning and ending cash and investments** on Statement C-5 should equal the **beginning and ending cash and investments** on Schedule 01.

4.3.13.50 Each fund type should be presented in a consolidated manner. That is, any intrafund activity, representing transactions or transfers occurring within the fund between departments, programs or managerial funds, should be eliminated as well as any interfund transactions within the fund type.

4.3.13.60 Fund types should be appropriately clear for external financial reporting purposes.

4.3.13.70 The **Total for All Funds (Memo Only)** column is a sum total of amounts reported for all funds.

4.3.13.80 For external financial reporting purposes, amounts should be presented in whole dollars.
Fiduciary Fund Resources and Uses Arising from Cash Transactions  
For the Year Ended December 31, 20__

<table>
<thead>
<tr>
<th>Total for All Funds (Memo Only)</th>
<th>Pension/OPEB Trust</th>
<th>Investment Trust</th>
<th>Private-Purpose Trust</th>
</tr>
</thead>
<tbody>
<tr>
<td>308 Beginning Cash and Investments</td>
<td>388 &amp; 588 Prior Period Adjustments, Net</td>
<td>310-390 Additions</td>
<td>510-590 Deductions</td>
</tr>
<tr>
<td>Net Increase (Decrease) in Cash and Investments:</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>508 Ending Cash and Investments</td>
<td>-</td>
<td>-</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Custodial</th>
<th>External Investment Pool</th>
</tr>
</thead>
<tbody>
<tr>
<td>308 Beginning Cash and Investments</td>
<td>-</td>
</tr>
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<td>388 &amp; 588 Prior Period Adjustments, Net</td>
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<tr>
<td>508 Ending Cash and Investments</td>
<td>-</td>
</tr>
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</table>

The accompanying notes are an integral part of this statement.