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Local Government Auditing and Accounting

Newsletter

Office of the Utah State Auditor

August 2013

New Submission System for Reports

The Local Government Division is pleased to announce a new online reporting system. Starting July 1, 2013 the Office of the Utah State Auditor (OSA) no longer accepts any reports mailed to our office. During the 2013 General Session, the Utah State Legislature passed legislation requiring all local government entities to submit their reports electronically to the OSA (*Utah Code 68-3-14-4a*).

There are two methods for submitting reports electronically to the OSA. It is our plan that within the next year Method 2 will be completely eliminated. Please review the table on page 2 to determine which method is applicable to the future reports you will be submitting.

Method 1:

- Go to the website reporting.auditor.utah.gov.
- In the upper right hand corner click the [Log in] button.
- Click [Register] to create your account.
- Create your own username and password. (Be sure to keep this information available for future reference.)
- Click [Register].
- There are six options available to you on the home page:
 - [Upload a budget, financial statement, impact fee, or other document]. We anticipate this option will be used most frequently. This is our mechanism for you to submit your reports electronically.

New Submission System for Reports (continued)

- [Prepare a financial report or survey of local government finances (UT forms) online].
- [Finish a previously started financial report or survey].
- [Update your entity’s contact information]. **We strongly recommend doing this!** In order for us to communicate with you efficiently and effectively, we need the most accurate information.
- [Download forms for local governments].
- [Search local government reports]. This option allows you to check that your report has been submitted and recorded in our database. Please allow 7–10 business days from when you upload your document for it to appear here.

Method 2:

- Email a PDF copy of your report to sao@utah.gov.

We understand that you may have questions concerning this change. Please don’t hesitate to call or email us. We know that the transition to this new, required, online report submission system will require effort on your part. The end goal is increased transparency for citizens as well as reduced work and reduced duplication of effort for Utah's local government officials and financial team members. Thank you for working with our Office during this transition.

Please review the article titled “Change in Reporting Requirements” on page 4 for specific details regarding the new reporting requirements.

Below is the table that can help you navigate which method you need to use for the report you are submitting.

| Year (CY & FY) | Type of Report | | | |
|-----------------------|----------------|---------------------|----------|------------|
| 2012 and older | Budget | Financial Statement | UT-Form | Impact Fee |
| | Method 2 | Method 2 | Method 2 | Method 2 |

| Year (CY & FY) | Type of Report | | | |
|----------------|----------------|-----------------------|----------|------------|
| 2013 | Budget | Financial Statement** | UT-Form* | Impact Fee |
| | Method 2 | Method 1 | Method 1 | Method 1 |

| Year (CY & FY) | Type of Report | | | |
|-----------------------|----------------|-----------------------|----------|------------|
| 2014 and newer | Budget | Financial Statement** | UT-Form* | Impact Fee |
| | Method 1 | Method 1 | Method 1 | Method 1 |

*The UT- census form is no longer required for periods ending on/after June 30, 2013. However, entities with total revenues or expenditures less than \$1 million must still submit similar data via the OSA’s online data collection system.

**For periods ending on/after June 30, 2013, financial statements are no longer required to be submitted for entities with revenues or expenditures less than \$500,000. Financial statement data will be generated using the information captured using the OSA’s online data collection system discussed above.

Pension Standards Consideration for Local Governments

The Governmental Accounting Standards Board (GASB) recently issued two new statements, GASB 67 & 68, which affect how pensions are reported. The biggest impact for local government financial reporting will be the inclusion of a liability for the pension's unfunded portion. The following are frequently asked questions regarding these new standards.

- How much work will implementing these standards be for our local government?

Utah Retirement Systems (URS) has the difficult task of implementing the details of the standard; therefore, many of the provisions you may have heard about will be taken care of by URS. URS will also provide the amounts to be reported and templates for the footnotes and RSI schedules. So, URS has greatly minimized the implementation burden.

- What if the additional pension liability creates a deficit fund balance or net position?

The pension standards apply only to funds using the economic resources measurement focus which are the entity-wide and proprietary fund statements. Since the entity-wide statements do not adopt a budget, the deficit fund balance requirement only affects proprietary funds.

State law prohibits a local government from making an appropriation in excess of the estimated expendable revenue for the budget period. Estimated Expendable Revenue = Estimated Revenue + Net Position Money Available to Spend – Required Reserve (usually 5% of total revenue from the last completed fiscal year). If more than the estimated expendable revenue was spent during a year, a deficit exists, and the subsequent budget must appropriate money to cover the entire amount of the deficit.

Therefore, if the pension liability creates a deficit net position, it must be retired in the subsequent year's budget.

- Debt Limit Impact?

Utah constitution and law regarding debt limits only apply to general obligation debt; therefore, we do not anticipate any impact on a local government's legal debt limit as a result of the pension standards.

Open and Public Meeting Minutes Requirements

| | Effective date | Pending (draft) minutes | Audio recording of the public meeting | Approved minutes |
|---|----------------|--|--|---|
| Counties and cities of the 1 st -4 th class | May 2013 | Must be made available to the public within 30 days* after a public meeting. | Should be made available to the public within 3 business days after a public meeting. May be posted online or made available at the entity's office. | Must be posted to the Utah Public Notice Website and made available at the entity's office within 3 business days* of approval of minutes. This includes any public materials distributed at the meeting. |
| Towns and cities of the 5 th class | January 2015 | | | |
| Special and Local Service Districts | May 2013 | Must be made available to the public within a reasonable time after a public meeting. | | Must be made available to the public within 3 business days after approving minutes. |

**The previous requirement allowed for making these available within a reasonable amount of time.*

Change in Reporting Requirements

Due to the passage of SB 179 this last legislative session, the reporting requirements for local governments have changed. These changes in reporting requirements have also dovetailed with changes made to the Office of the Utah State Auditor's website to present a new way of submitting financial information to our office.

Revenues or expenditures less than \$100,000

Entities that have revenues or expenditures less than \$100,000 are now required to submit financial information directly to our website at reporting.auditor.utah.gov. Once they have entered their financial information, they will be able to print a financial report to keep for their records. With this change in the way financial information is submitted, these entities will no longer be required to submit a UT census form with their financial report.

Revenues or expenditures between \$100,000 and \$500,000

Entities with revenues or expenditures between \$100,000 and \$500,000 are required to submit their financial information directly to our website at reporting.auditor.utah.gov and obtain an Agreed-Upon Procedures report from an independent CPA firm. The Agreed-Upon Procedures are specific audit steps that the Office of the Utah State Auditor has developed for auditors to conduct. The report that results from the Agreed-Upon Procedures is intended to provide decision-makers of the respective entity with valuable information regarding transparency, compliance, and internal controls. This information will help the entity make decisions regarding their financial health and well-being. The requirement for a compilation of a financial report in accordance with generally accepted accounting principles or a review performed by an independent CPA is no longer in effect. With this change in the way financial information is submitted, these entities will no longer be required to submit a UT census form along with their financial report.

Revenues or expenditures in excess of \$500,000

Entities whose revenues or expenditures for any given fiscal year are in excess of \$500,000 are required to have an audit conducted of their financial activity by an independent CPA firm. Due to HB 99 in the last legislative session, the audit reports submitted to our office are required to be submitted electronically. We no longer will accept hard copies of audit reports. In addition, as long as the entity submits its detailed financial transactions to the Transparency Website using the uniform chart of accounts, it is not required to submit a UT census form. For entities with revenues and expenditures between \$500,000 and \$1,000,000 that have not voluntarily posted detailed financial transactions to the Transparency Website, financial information is required to be entered directly to our website at reporting.auditor.utah.gov.

Beginning January 2014, the Office of the Utah State Auditor will distribute the newsletters through email **ONLY**. Please send any e-mail addresses associated with your entity that will receive the newsletter to newsletter-auditor@utah.gov.

Include the name of the recipient and the name of the entity in the body of the e-mail.

Thank you for help in this regard.

Submission of Budgets

The method of submitting your annual budgets has changed from e-mailing a copy to our office to uploading your budget directly to our website at reporting.auditor.utah.gov. The budgets no longer require a certification by the budget officer as long as the budget is submitted using reporting.auditor.utah.gov since the submission process captures the information that we need to ensure the budgeting process followed State Law. The forms are available at reporting.auditor.utah.gov.

Additionally, it has come to our attention that some local governments present a budget to the public prior to and during their budget hearing and then prepare a separate budget on forms provided by our office to be submitted to our office. Our office prepares budget forms that are designed to help local governments comply with the law. These forms include information that must be made available to the public both prior to and during the budget hearing. Local governments are not required to use forms provided by our office, but must provide information required by law to the public. The budget form that should be submitted to our office is the budget that was presented to the public. We review this budget to ensure that it complied with requirements found in *Utah Code*.

Uniform Chart of Accounts

Applicable to entities that post to the Transparency Website (Operating Budgets in excess of \$1,000,000)

The Office of the Utah State Auditor has developed a revised uniform chart of accounts. The revision was necessary to update the uniform chart of accounts to comply with GASB 34 standards. Rather than a chart of accounts that was functionally based, the new uniform chart of accounts allows for natural classification as well as functional classification of revenues and expenditures. Entities that post detailed transactions to the Transparency Website are now required to crosswalk their chart of accounts to the uniform chart of accounts before submitting their data to the transparency website. **Please note that these entities are not required to adopt the uniform chart of accounts as their own chart of accounts. Rather, they are required to “map” their existing chart of accounts to the uniform chart of accounts and apply it to the detailed transactions that are submitted to the Transparency Website.** We would anticipate that the uniform chart of accounts be applied for the first quarterly download of fiscal year 2014, which is due October 31, 2013. Entities on a calendar year end would be required to submit their detailed transactions using the uniform chart of accounts for their first quarterly submission of 2014 sometime before April 30, 2014. Please direct any questions to Ryan Roberts at the Office of the Utah State Auditor.

Fund Balance Limitations for Cities

A reminder that the general fund balance limitations for cities has increased. As of May 14, 2013 (for periods ending June 30, 2013), a city's unrestricted general fund balance may not exceed 25% of the total estimated revenue of the general fund. This is an increase from 18%. 'Unrestricted' fund balances are considered those fund balance categories listed as 'committed', 'assigned', and 'unassigned' in your financial reports. The total estimated revenue of the general fund is next year's total general fund budgeted revenue minus any beginning fund balances appropriated.



Certification of Annual Financial Report

House Bill 330 was passed this last legislative session requiring the Chief Administrative Officer (CAO) and Chief Financial Officer (CFO) of a local government to certify the accuracy of the annual financial report. The specific language required for this certification is stated in the law and a certification form has been prepared by our office that complies with the law. This form is available on our website at reporting.auditor.utah.gov.

The CAO is the person designated in statute, or if the statute does not designate a CAO, the governing body of the local government should designate the individual who holds a managerial or similar position that perform administrative duties as the CAO. The CFO is the person appointed as the CFO by the local government. This person should be the individual who has primary responsibility for preparing the annual financial report. This person could be an accountant hired by the entity.

Budget Amendments

This is a reminder that a budget must be amended **before** expenditures are incurred in excess of the legally adopted budget. It is **not appropriate to incur expenditures with plans to subsequently amend the budget**. Some local governments have gotten into the practice of amending their budget near the end of the fiscal year in order to match budgeted expenditures to actual expenditures. The practice is not consistent with principles upon which budget laws have been adopted.

The budget process is an important way for the public to provide input on a local government's expenditures and plans. However, if the government incurs expenditures without properly adopting or amending the budget, the public has no method by which they can provide input on the government's expenditures and plans. Please consider the law and the principles upon which laws have been adopted when adopting and amending the government's budgets.

Deficit Cash Balances

We have noted several entities reporting “Deficit Cash” balances as a liability in their general funds at year end. This balance represents the amount of cash borrowed or used by the general fund from other funds, usually enterprise funds, because the general fund does not have enough cash to operate. We noted that although a liability was being reported in the general fund, the applicable transactions were not being properly reflected in the fund where the cash originated, resulting in overstatement of cash balances. This could, and did, result in some enterprise funds appearing to meet bond cash reserve requirements when they did not. It also resulted in inaccurate cash flow statements and misrepresented the cash flow picture in those enterprise funds to management and those charged with governance.

We remind you that when one fund has overdrawn its share of an internal cash pool, that fund (i.e., general fund) should report an **interfund liability** to the fund that the government’s management deems to have lent the amount to the overdrawn fund. The fund (i.e., enterprise fund) deemed to have lent the amount should report an **interfund receivable** from the borrowing fund. Further, if repayment is not expected within a reasonable time or at all, the amounts **should be reported as transfers (Other Operating Sources/Uses)** in each fund instead of an interfund liability/receivable. Regardless, the fund loaning cash should reflect a decrease in cash. (NOTE: Transfers must be included in the applicable fund’s budget or amended budget.)

Accounting for Local Option Sales Taxes for Transportation

Utah Code 59-12-2208 allows a county, city, or town legislative body to impose a sales tax for transportation. One of the allowable uses of the tax is for a “system of public transit.” Some local governments have elected to have the State Treasurer directly deposit these funds with the Utah Transit Authority (UTA) rather than having the funds flow through the county, city, or town and then to UTA. Regardless of the flow of funds, because the tax is imposed by the county, city, or town, **these funds should be recognized as a revenue and expense on the books of the entity that imposed the tax.**

The Office of the Utah State Auditor’s position regarding this revenue and expense recognition is based upon the 2012 edition of the Government Finance Officers Association (GFOA) Governmental, Accounting, Auditing, and Financial Reporting (GAAFR) or “Blue Book,” which states the following on page 129.

*“Sometimes a government that imposes a sales tax (county) will remit all or a portion of the proceeds to a lower level of government (municipality). Such amounts are not sales taxes from the perspective of the recipient government. That is, **a tax is only a tax from the vantage point of the government that imposes it.** A government that receives the proceeds of another government’s taxes should treat the event as a government mandated or voluntary nonexchange transaction, depending upon the circumstances.”*

GFOA based the above guidance on GASB 33, paragraph 28, as amended by GASB 36, paragraph 2. The Office of the Utah State Auditor is evaluating this issue due to concerns related to transparency. If the revenue or expense for a tax imposed by a government is not included in the budget or financial activity of a local government, the legislative bodies subsequent to the body that imposed the tax may not be aware of the tax and that they have the ability to repeal or change the tax as provided in *Utah Code* 59-12-2209. Additionally, if the tax is not included in the budget or financial report of the entity that imposed the tax, it is unclear to taxpayers which legislative body (the local government or UTA) will hold a public hearing at which they can provide input on the tax.

Local Government Auditing and Accounting

August 2013 Newsletter

Office of the Utah State Auditor

auditor.utah.gov

Simplified Reporting is HERE!

As of fiscal year 2014, UT Census forms are no longer required to be submitted to our office.

Revenues or Expenditures Under \$500,000

1. Log on to reporting.auditor.utah.gov
2. Enter financial information directly to website
3. Print a financial report

Revenues or Expenditures Over \$500,000

1. Log on to reporting.auditor.utah.gov
2. Upload audited financial statements
3. Enter financial information directly to website **OR** post quarterly transactions to the Transparency Website

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