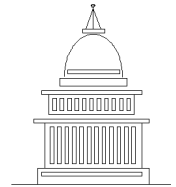




Local Governmental Auditing and Accounting

Newsletter



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Questions or Concerns?

If any entity has questions or concerns regarding budgeting, financial reporting, or compliance with state law or policy, please feel free to call any of the individuals listed above. If we don't have the answer, we can research the question or refer you to the office or individual that can help you! Outside the Salt Lake City area, feel free to use our toll-free telephone number: 1-800-622-1243. You can also e-mail us at the addresses shown above.

AMENDMENT TO GOVERNMENT AUDITING STANDARDS REQUIRES AUDIT REPORT CHANGES

Independent auditors should be aware of recent wording changes in audit reports of local governments. Most auditors have already incorporated these changes into their audit reports; however, some recent reports filed with the State Auditor's Office have not included the required wording changes.

The second amendment to *Government Auditing Standards*, commonly referred to as Yellow Book, now requires the auditor to emphasize in the auditor's report on the financial statements the importance of the report on compliance with laws and regulations and internal control over financial reporting when this report is issued separately from the report on the financial statements.

Government Auditing Standards previously required a reference to the compliance and internal control report similar to the following: "... we have also issued our report dated [date of report] on our consideration of the City of Example's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants." **The second amendment to *Government Auditing Standards* now requires an additional sentence** as follows: "That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit."

The Yellow Book and Single Audit compliance and internal control reports should also include a revised final paragraph, as required by *Statement on Auditing Standards No. 87 - Restricting the Use of an Auditor's Report*. This paragraph expresses that these reports are intended for specified parties. The final paragraph should be similar to the following: "This report is intended solely for the information and use of the audit committee, management, [specified legislative or regulatory bodies], and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties."

While these reports are intended to be used by the specified parties, which include the applicable government regulatory bodies which require the reports, this report restriction does not alter the fact that the audit reports are public documents which, based on Utah laws, must be open to inspection by any interested person.

The current *Government Auditing Standards* (Yellow Book) and AICPA illustrative report examples can be found on the internet at www.gao.gov/govaud/ybk01.htm and www.aicpa.org/belt/a133.htm, respectively.

There are also direct links to these documents from the Utah State Auditor's "Resources" web page at www.sao.state.ut.us/html/resources.html.

DISTRICTS! YOU'VE GOTten MAIL

In October we sent our annual mailing to you. It included your budget forms (pink), the Surveys of Local Government Finances (UT) forms, and for the smaller districts the financial statement forms (yellow). If your revenues or expenditures are between \$50,000 and \$150,000 per year you did not get the yellow financial statement forms - you will need a compilation by a qualified CPA firm. If your revenues or expenditures exceed \$150,000 per year you also did not get the yellow financial statement forms - you will need an audit by a qualified CPA firm. The forms we have mailed you are the same we have mailed for many years, but here are the details:

- **Budget forms** - They will have a budget calendar and instructions to help you. There is also a "Certification" form, which is very important. Please fill it out completely, including the checkoff box showing under which part of the law you adopted the budget. Be careful of the dates!! The budget will be for the year ending December 31, 2001, or June 30, 2002. If you are on a calendar year, the hearing and adoption dates should show the year 2000 because the budget must be adopted before the beginning of the year 2001. If you are on a June 30 year end, the hearing and adoption dates should be prior to June 30, 2001, again because the budget must be adopted before the beginning of the year July 1, 2001.

An original, notarized budget is due to us within 30 days after you have adopted your budget, at the latest by January 31, 2001, or July 31, 2001.

- **UT forms** - These forms should be completed after your financial statements, audited or not, have been completed. All information on the UT forms may be taken from the financial statements. The UT form does not take the place of the financial statements, but should be submitted to our office with the financial statements.
- **Financial Statement forms** - They will have an instruction page to help you. Besides the instructions, there is a certification; a balance sheet; and a statement of revenues, expenditures, and changes in fund balance. All three must be completed. Most of you can find all the necessary information in a well-kept checkbook.

An original, notarized financial statement is due to us within 6 months after your year end.

Finally, please read all instructions and send the forms to us when due. If someone else has taken your place, please forward this mail to them. If you need help, please call me, Eckhard, at (801) 538-1394 or on my cell phone at (801) 644-6806.



FUND ACCOUNTING - DEBT SERVICE FUNDS

In this issue we continue with the fifth article in a series on fund accounting. This series should be helpful for all sizes of government entities. Our reason for writing this series is to help government accountants and bookkeepers understand the accounting environment and requirements for local governmental units. This article will discuss the debt service fund.

Before discussing the debt service fund it must be pointed out that government accounting standards set forth that governmental units can have any number of funds, but that the least number possible should be used. Governments should establish and maintain those funds required by law and sound financial administration. Unnecessary funds will only result in undue complexity and inefficient financial administration.

Debt Service Fund – Often governments set aside money to pay for current and future needs to pay off debts. Such monies are usually reported in the debt service fund. The GASB Codification (the bible of governmental accounting) states that the debt service fund may be used "to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest."

A debt service fund is optional, unless:

- it is required by law. (Utah does not require a debt service fund)
- it is required by debt agreements, e.g., bond covenants.
- financial resources are being accumulated for principal and interest payments maturing in future years. (Future years does not mean the accumulation of financial resources for only the next year.)
- grant resources are received that are restricted to the payment of principal and interest on general long-term debt.

If a government does maintain a debt service fund, it is not required to report all of its general long-term debt service in the debt service fund (e.g., capital leases are often budgeted and reported in some other fund). Finally, the reasons for maintaining a debt service fund can, if so desired by management, be satisfied by the general fund. Payments of debt principal and interest may be made directly out of the general fund, if the use of a debt service fund is not otherwise required.

NEW CHANGES IN CLASSIFICATION FOR MUNICIPALITIES

Because of a new law passed by the 2000 Legislature many towns around the state have received "Certificates" indicating they are now third class cities. *Utah Code, Section 10-2-302* now places the responsibility for municipal class determination on the Lieutenant Governor's Office. According to Kim Bourk in the Lieutenant Governor's Office, these certificates went out the first week of November for the first time. New third class cities in this first round include the following municipalities: Bear River, Elk Ridge, Francis, Minersville, Mona, Spring City, Toquerville, Woodland Hills, and Uintah. West Jordan, previously a third class city was informed they are now joining the ranks of the second class cities.

Ms. Bourk indicates that at this point, the Lieutenant Governor's Office plans on reviewing all municipalities annually to determine the appropriateness of their classification and making upgrades when needed. There is really no provision in the law to down grade a municipality from a city back to a town for instance, unless a city specifically makes a petition to the Lieutenant Governor's Office for such an action.

What does it mean for these new third class cities?

The cities will now be subject to the City Fiscal Procedures Act which has different and more extensive requirements for adopting a budget. The amount of fund balance which can be carried over from one year to the next is only 18% verses the 75% that they have been used to. State budget forms for the general fund are much more detailed. We would urge each new city to contact the State Auditor's Office and obtain a copy of the *Uniform Accounting Manual for Utah Cities* which will contain information on the requirements for budgeting, financial reporting, and fiscal responsibilities for cities and their elected and appointed officials.

CHANGE TO THE COURTS' LEGAL COMPLIANCE AUDIT GUIDE

The Administrative Office of the Judicial Council has amended the fee schedule associated with violations of *Utah Code, Section 27-12-151* and *Section 27-12-154* regarding maximum weight limitations and overweight permits. Rather than charging a different fee for trial cases, cases with judge time, and bail forfeitures, the fee is now \$50 across the board. This change has been made to the *Legal Compliance Audit Guide* on our web page (www.sulcag.sao.state.ut.us/gc7.htm) and will be included in our next update of the hard copy to be sent out next year. In the mean time, we suggest that users of the *Audit Guide* make the following changes to their own copies in Section GC-7, pages 4 of 7 and 7 of 7 or reprint GC-7 from the internet:

- \$50 for a case that goes to trial
- \$50 for a case that involves judge time
- \$50 for a case that is resolved through bail forfeiture proceeding that requires only clerk, not judge time.



MOVING MONEY FROM ONE FUND TO ANOTHER

We often get calls in the office asking if it is possible to move money from one of the enterprise funds to the general fund or vice versa. And if it is possible, how is it accomplished? Well, here is the answer. . . . YES! The governing body of a government entity can move money anywhere it wants. The key to the whole matter, however, is public disclosure and following the correct procedures.

One has to remember that an enterprise fund such as a water or electric utility fund has customers that it provides a service to and that these customers are the owners of this business just like the citizens of a municipality are the owners of the general fund. As such, the customers have an inherent right to be notified of the intended actions affecting their utility service provider and to make public comment if desired. Therefore, if the council wishes to transfer money from the enterprise fund and give it to the general fund, which, in effect, means that the enterprise activity is subsidizing the town's general operations,

proper notification must be made. This should be made with a "written notice (to the utility fund customers) as to the date, time, place and purpose" of the hearing held to receive public comment on this transfer. See *Utah Code, Section 10-6-135(d)*. This notification and public hearing must be held whenever a transfer of funds is anticipated.

Occasionally, there is also confusion about the difference between contributions and transfers. Contributions are located in the same area of the budget as transfers and generally appear to be going into or coming from the various funds, but how do they differ from a transfer? A contribution is a permanent equity transfer. They are used to either seed or close a fund. Contributions are, as the name indicates, contributions of cash or other resources which are not expected to be paid back nor are the result of any service of value rendered the donating fund. Contributions could be a gift from an outside source. Contributions between funds must also balance.

Local government entities should ensure that the terms "transfer" and "contribution" are properly applied as they submit their budgets and that they are identified as to source and destination and that they balance.

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Return Service Requested