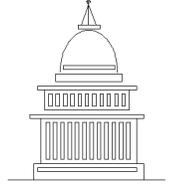




Local Governmental Auditing and Accounting

Newsletter



Published by the Office of the Utah State Auditor

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Please Help Us Save the Environment!!!

We would like to reduce the amount of paper we use to publish our Newsletter. If you would like to help us save paper and taxpayers' money, please let us know by sending an email to kgodfrey@utah.gov and we will send you our Newsletter electronically in the future.

Our Web Address: www.sao.utah.gov

January 2010

Transfers from the Enterprise Fund

There are occasions when, for whatever reason, a county, city, local or special service district wants to subsidize the operations of one fund (usually the general fund) with funds taken from a utility enterprise fund. We are not talking about the enterprise fund reimbursing the general fund for services performed. We are talking about the enterprise fund actually giving money to the general fund which means the rate payers or customers of the utility are supporting the operations of the local government and its general fund. Is this right? –Not ours to say. Is this legal? Yes – IF the local government entity goes through the legal requirements as specified by Utah Code 17-36-32(3)(d) for counties, 10-6-135(3)(d) for cities, 10-5-107(4) for towns, and 17B-1-629(3)(a)(ii) for local and special service districts.

These statutes state that, "If within any enterprise fund, allocations or transfers that are not reasonable allocations of cost between funds are included in a tentative budget, a written notice of the date, time, place and purpose of the hearing shall be mailed to utility fund customers at least seven days prior to the hearing.

These statutes require that the purpose portion of the notice shall identify (a) the enterprise utility fund from which money is being transferred; (b) the amount being transferred; and (c) the fund to which the money is being transferred."

As with all local government expenditures and transfers of funds, they must be budgeted and be subject to public scrutiny. They must go through the public hearing process. However, in the case of using utility enterprise fund money, the legislature has put into place specific notice requirements of requiring a written notice to be mailed to inform utility fund customers to ensure that they are notified of the public hearing and giving them the opportunity to comment. In the case of counties and cities, this added step was put into place because utility customers are not necessarily residents of the county or city and may not receive the benefit of monies diverted to general fund use. With regard to local and special service districts, revenues collected for one purpose could be diverted to another purpose without public input and disclosure.

So the process involves including the anticipated transfer as part of the "tentative budget" before the budget is adopted. What if we didn't anticipate transferring any money at the beginning of the year but later on we found ourselves in trouble and the general fund needs money now? In order to expend money or transfer funds that were not included in the original budget, the local government must go through the process of amending the budget. What is the process to amend a budget? The process to amend a budget is the same process as it was to adopt the budget at the beginning of the year. The local government must adopt another "tentative budget", advertise it, send out notices, hold a public hearing and formally adopt the revised tentative budget. Any written notice to utility rate payers must be done before the new public hearing and adoption of the amended budget takes place.

Reporting Deferred Revenues Relating to Property Taxes

The State Auditor's Office has received several inquiries about the proper reporting of property tax receivables and revenues/deferred revenues in the governmental funds statements and the government-wide financial statements. We have had a lot of good discussion on the topic and have found that perhaps the direction that we have given some CPAs and local governments was not entirely correct. We have had discussions with GASB on the topic and feel that there is a need for clarification and correction at this time.

Under the Utah Code, a lien is placed on all properties at January 1st for property taxes to be paid later that year (in November). This results in "an enforceable legal claim" at that time. GASB Statement No. 33 requires entities to recognize a receivable at that time and report that receivable on the June 30 financial statements with an offsetting deferral of revenues since the revenue recognition criteria has not been met. Most local governments in Utah have been properly report-

ing this receivable and deferred revenue in their governmental funds financial statements.

The question that arises is whether deferred revenue should also be reported on the government-wide statements. Based on our conversation with GASB, the issue of whether the revenue recognition criteria have been met applies at the government-wide level just as it does at the governmental fund level. The criterion that applies in this case is that revenues should be recognized in the period for which the taxes have been levied. Utah law is actually silent on this issue, but most local governments recognize the revenue in the period received. Therefore, the revenue recognition criteria have not been met at June 30, and the deferred revenue should also be reported in the government-wide statements.

If you have any questions, please call MacRay Curtis at (801) 783-0790.

Impact Fees Revisited

It seems almost as if every legislative session brings more changes in the requirements and reporting relating to impact fees. Developers continue to assert that impact fees are too high and that impact fee funds are used for purposes not permitted under the Impact Fee Act. The 2009 Legislature was no different than previous sessions. Senate Bill 84 made significant changes in the reporting required by local governments.

Previously, State law required that certain information be reported in an entity's financial statements. The information to be reported has not changed, but the way it is reported has changed, and the legislation required the State Auditor's Office to prescribe the format of the report.

The law now requires that each county, municipality, and special district shall present an impact fee report which identifies impact fee funds by the year in which they were received, the project from which the funds were collected, the capital projects for which the funds were budgeted, and the projected schedule for expenditure; in a format developed by the state auditor; certified by their financial officer; and transmitted annually to the state auditor.

The format prescribed by the State Auditor's office is shown on the following page. Two schedules will be required. The first schedule details the impact fees on hand at the end of an entity's fiscal year. It should show in

some detail the source of the impact fees broken out by the fiscal year in which they are received. The second schedule reports the projected expenditure of the impact fees on hand. It should show in some detail the projects for which the impact fees will be spent and the fiscal year they will be spent. A copy of the forms and the related certification form may be found on the web at www.sao.utah.gov/IgForms.html. This package is due to the State Auditor's Office within six months after the end of the entity's fiscal year.

Local governments assessing impact fees need to be aware that the law also requires financial reporting related to those impact fees. However, the law does not require these reports to be filed with the State Auditor's office. Utah Code section 11-36-301 states: "Each local political subdivision collecting impact fees shall: (1) establish separate interest bearing ledger accounts for each type of public facility for which an impact fee is collected; (2) deposit impact fee receipts in the appropriate ledger account; (3) retain the interest earned on each fund or account in the fund or account; and (4) at the end of each fiscal year, prepare a report on each fund or account showing: (a) the source and amount of all monies collected, earned, and received by the fund or account; and (b) each expenditure from the fund or account." Local governments should keep these financial reports on file and make them available to the public upon request.

Sample Government Entity
Impact Fee Schedule
Revenues on Hand
FY Ended June 30, 2008

Projects From Which Funds Were Collected	Date Received	Roads	Storm Drain	Parks	Total
Copper Hills PUD	FY06	\$ 40,000.00	\$ 35,000.00	\$ 10,000.00	\$ 85,000.00
Wheatfield Estates	FY06	\$ 9,900.00	\$ 8,000.00	\$ 6,000.00	\$ 23,900.00
Albertson's	FY06	\$ 58,000.00	\$ 45,000.00	\$ 15,000.00	\$ 118,000.00
8975 Highland Blvd.	FY06	\$ 2,000.00	\$ 1,800.00	\$ 800.00	\$ 4,600.00
Wal-Mart Stores	FY06	\$ 100,000.00	\$ 50,000.00	\$ 15,000.00	\$ 165,000.00
Interest Earned		\$ 12,350.00	\$ 8,200.00	\$ 2,000.00	\$ 22,550.00
Total Collected for FY 2006		\$ 222,250.00	\$ 148,000.00	\$ 48,800.00	\$ 419,050.00
Subway Restaurant	FY07	\$ 10,000.00	\$ 8,500.00	\$ 8,000.00	\$ 26,500.00
75400 S 1300 E	FY07	\$ 3,000.00	\$ 2,000.00	\$ 5,000.00	\$ 10,000.00
Legend Falls Condominiums	FY07	\$ 26,000.00	\$ 21,000.00	\$ 18,000.00	\$ 65,000.00
7005 Iron Blossom Way	FY07	\$ 4,500.00	\$ 4,000.00	\$ 3,000.00	\$ 11,500.00
Michael's	FY07	\$ 15,000.00	\$ 12,000.00	\$ 10,000.00	\$ 37,000.00
Iggy's Sports Grill	FY07	\$ 18,000.00	\$ 15,000.00	\$ 11,000.00	\$ 44,000.00
Interest Earned		\$ 3,000.00	\$ 2,900.00	\$ 2,000.00	\$ 7,900.00
Total Collected for FY 2007		\$ 79,500.00	\$ 65,400.00	\$ 57,000.00	\$ 201,900.00
4595 Peachtree Circle	FY08	\$ 5,000.00	\$ 4,000.00	\$ 3,000.00	\$ 12,000.00
Swan Meadows	FY08	\$ 15,000.00	\$ 10,000.00	\$ 76,000.00	\$ 101,000.00
Heatherwood	FY08	\$ 28,000.00	\$ 21,000.00	\$ 17,500.00	\$ 66,500.00
Chill's Restaurant	FY08	\$ 30,000.00	\$ 24,000.00	\$ 20,000.00	\$ 74,000.00
Menlove Investments Inc.	FY08	\$ 3,900.00	\$ 3,000.00	\$ 2,000.00	\$ 8,900.00
Daybreak Properties	FY08	\$ 120,000.00	\$ 108,000.00	\$ 68,500.00	\$ 296,500.00
Bangeter Mall	FY08	\$ 200,000.00	\$ 300,000.00	\$ 10,000.00	\$ 510,000.00
Interest Earned		\$ 4,500.00	\$ 5,000.00	\$ 2,300.00	\$ 11,800.00
Total Collected for FY 2008		\$ 406,400.00	\$ 475,000.00	\$ 199,300.00	\$ 1,080,700.00
Total Impact Fees on Hand					\$ 1,701,650.00

Sample Government Entity
Impact Fee Schedule
Projected Expenditures of Impact Fees on Hand
FY Ended June 30, 2008

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Impact Fees by Project
Roads							
7th East Preliminary Engineering	\$ 15,000.00	\$ 3,000.00					\$ 18,000.00
7th East Road Widening		\$ 15,000.00	\$ 52,000.00				\$ 67,000.00
Harris Point Road		\$ 108,000.00	\$ 100,000.00				\$ 208,000.00
Legacy Drive Engineering				\$ 100,000.00	\$ 95,300.00		\$ 195,300.00
3rd West				\$ 19,850.00	\$ 25,000.00	\$ 175,000.00	\$ 219,850.00
Storm Drain							
Jordon Park Drain	\$ 35,000.00						\$ 35,000.00
River Front Parkway	\$ 128,000.00	\$ 18,000.00					\$ 146,000.00
Brigham Trail			\$ 3,500.00	\$ 16,100.00			\$ 19,600.00
Midas Creek Drain					\$ 187,800.00	\$ 300,000.00	\$ 487,800.00
Parks							
Founder's Park	\$ 50,000.00	\$ 17,000.00	\$ 6,300.00	\$ 65,000.00	\$ 11,800.00		\$ 150,100.00
Harris Park Bowery			\$ 34,000.00	\$ 12,000.00			\$ 46,000.00
Brigham Trail				\$ 65,000.00	\$ 34,000.00	\$ 10,000.00	\$ 109,000.00
Totals by Fiscal Year	\$ 228,000.00	\$ 161,000.00	\$ 195,800.00	\$ 277,950.00	\$ 353,900.00	\$ 485,000.00	
Impact Fees Projected for Expenditure							\$ 1,701,650.00

2010 LOCAL GOVERNMENT ANNUAL REGIONAL TRAINING SESSIONS

<u>DATE:</u>	<u>LOCATION:</u>
Tuesday March 23, 2010 9 am – 1 pm	<u>South Ogden</u> So. Ogden Municipal Center 3950 Adams – Council Room
Wednesday March 24, 2010 9 am – 1 pm	<u>Salt Lake City</u> State Office Building Auditorium, 1st Floor
Monday March 29, 2010 9 am – 1 pm	<u>Orem</u> 56 North State St. City Offices – Council Chambers
Wednesday March 31, 2010 9 am – 1 pm	<u>Logan</u> Bridgerland ATC 1301 N. 600 W. Rooms 806/808 (Enter East Doors)
Monday April 12, 2010 1 pm - 5 pm	<u>Richfield</u> 250 North Main Auditorium
Monday April 19, 2010 1 pm – 5 pm	<u>St. George</u> 175 East 200 North Council Chambers
Monday April 26, 2010 9 am – 1 pm	<u>Price</u> 185 East Main 1 st Floor -Room 106
Wednesday April 28, 2010 1 pm – 5 pm	<u>Vernal</u> 147 East Main St. South Conference Room

The Local Government Division of the Utah State Auditor’s Office sponsors annual training every Spring for local government officials and the independent auditors of local governments. Below is a description of the seminars. We invite everyone to attend.

The Regional Training Seminars will be held at eight locations spread throughout the State. The seminars are intended for municipalities, counties, special districts, school districts and private non-profits working with governments. We invite mayors, council members, clerks, recorders, treasurers, board members, commissioners, county auditors, school business officials and independent auditors who work with local governments to attend. This year, as in the past, we will be discussing current financial issues that affect budgeting and accounting officials from local governments. We will discuss the requirements of new governmental accounting standards. We will also have an update on the effects of the 2010 legislative session on local governmental entities, a presentation on current issues from the Utah State Tax Commission, and information on other critical issues. We will also hold a budget training session for new budget officers.

At left is a list of times and locations. The seminar will last 3 hours. For those who choose to attend the hands-on budget training, it will take another 45 minutes or until you have your questions answered. We hope to see you there!

ALLOCATION OF UNIFORM STATEWIDE FEES

We have received several questions about how to allocate uniform statewide fees (i.e. fee-in-lieu). Some entities are recording these funds directly into the general fund and not to other funds in accordance with the manner property taxes are distributed.

Utah Code 59-2-405.2 (5)(b) states “Each taxing entity described in Subsection 5(a), that received revenues from

the uniform statewide fees imposed by this section shall distribute the revenues in the same proportion in which revenues collected from the ad valorem property tax are distributed.” Therefore, revenues received from these fees should be treated like property taxes and be allocated to the government’s different funds in proportion to their property taxes to be in compliance with the law stated above.

ANNOUNCEMENT FOR ALL CPAs



The State Auditor's Office announces its annual training for auditors of local governments. It will be held:

Thursday May 13, 2010

12:30 pm to 4:15 pm

Larry Miller Campus of
Salt Lake Community College

Please note that this will be held the day before the UACPA Governmental Update on May 14, 2010, and will offer 4 hours of CPE.

Also, the State Auditor's Office is co-sponsoring training that morning with the Utah State office of Education for CPAs who audit School Districts . This training will run from 8:00 am to 11:40 pm, and will offer an additional 4 hours of CPE, for a total of 8 hours of CPE for those attending both sessions. The morning session is optional and is geared specifically to those who would like additional training on school district issues.

We will be providing a lunch for all participants. The cost is \$75 for either the half day or full day of training—still a bargain! Watch for registration materials coming in the mail.

See You There!

Utah Public Meeting Notice Website

The Utah Public Meeting Notice Website has been available for some time now. Local governments are required to submit specific details about their public meetings to this website in a timely manner. The website can then be used by the public to search for meeting times, locations, and agenda items. The actual internet address of the Utah Public Meeting Notice Website is <http://www.utah.gov/pmn/index.html>.

During the last year we have received questions from a number of local governments asking; "We are now using the public meeting notice website is there any-

thing else we need to do?" The answer to this question is "Yes, you have a lot to do." The requirement to post your public meeting on the website is an additional requirement to all that has been required in the past. Therefore, everything you have done in the past regarding notifying the public regarding your local government's meeting is still required, plus you also must post your meeting's information on the Utah Public Meeting Notice Website. You can learn more about the Utah Public Meeting Notice Website by going to <http://www.utah.gov/pmn/index.html>.

Filing Reports Electronically

Hopefully everyone is aware that the Utah State Auditor's Office now accepts electronic copies of financial reports, budgets, and UT forms. This has saved our office a lot of time and we hope that you have found it more convenient. We will still accept hard copies of reports if you desire; however if you send us an electronic copy of any report, we request that you do not also send a hard copy. We have noticed that when we receive an electronic copy and a hard copy of a report, we sometimes will process both formats of the same report. If the hard copy is received after the electronic copy has been submitted, we will over-write the electronic copy and a scanned version of the hard copy is what ends up on our website. Please work with your CPA to determine who will be responsible for submitting reports to our office. (Ultimately it is the local government's responsibility; however many CPAs submit financial reports and UT form to our office for the local government.)

Please continue to submit reports electronically to the e-mail address sao@utah.gov. Many still submit UT forms to another e-mail address used in the past- utforms@utah.gov. We would like local governments and CPAs to just use the sao@utah.gov address for all reports including UT forms. The utforms@utah.gov e-mail address will be shut down in the near future. Also, if you send the reports to one of the local government staff, we just forward the e-mail to sao@utah.gov. As a general rule, please e-mail all reports to sao@utah.gov.

A couple of reminders when filing electronically:

1. Financials should be complete. Complete means financial reports, notes, yellow book reports, single audit (if applicable), state legal compliance, management letter, and client responses to audit findings submitted in a single pdf file. Sometimes the single audit has not been completed when the financial report is due to our office and therefore the single audit report is submitted at a later date. It would be helpful when you forward the single audit report to us to also include the financial statements and other documents again all in one file. The problem we have faced is that sometimes single audit pdf files have been password protected and we therefore cannot combine the single audit report with the financial audit file.

2. Only send reports once. As mentioned above, a hard copy is not necessary if an electronic copy has been sent. Also, a description of what is being sent in

the e-mail is also helpful to ensure that we have received everything you intended to send to our office.

3. Check UT-forms before e-mailing. Make sure the file is complete. We have received a number of blank UT-forms and UT-forms with non-numeric characters in the amount boxes. Also remember to complete the entity name and fiscal year box to ensure your report is properly received.

4. We cannot respond to each e-mail. Due to the volume of reports sent to our office and lack of staff, we cannot respond to each e-mail stating that the report has been received. Please call our office if you have concerns about a specific report. Otherwise, you can confirm that we have received your report by checking on the internet to ensure it has been posted there. However, expect about 3 weeks from the time you submit your report to our office before the report will be available to be viewed on our website.

5. Our secretary loves unbound hard copies of reports. If you decide to submit a hard copy, it is easier to scan the report if unbound. We prefer unbound copies of reports.

Budgets cuts have forced the local government division of the Utah State Auditor's Office to prioritize some of our services; however we are still committed to posting all reports from local governments to our web site. Electronic filing of reports helps us complete this task in a timely and efficient manner.

Our office is currently working on providing the Census (UT) forms and budget forms in a pdf format that can be filled out on the internet and submitted directly to our office. We will provide further information when that project is complete.

As always, if you have any questions, concerns, or problems with any reports on our web site please contact Kent Godfrey at kgodfrey@utah.gov or by calling him at 801-538-1384. Thanks for all your help in regards to submitting reports to our office.



American Recovery and Reinvestment Act

In February 2009 Congress passed the “American Recovery and Reinvestment Act of 2009” (ARRA). The stated purposes of ARRA are:

1. To preserve and create jobs and promote economic recovery.
2. To assist those most impacted by the recession.
3. To provide investments needed to increase economic efficiency by spurring technological advances in science and health.
4. To invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits.
5. To stabilize State and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases.

Many local governments have received Federal grants and loans that include ARRA funds. These funds carry with them certain additional requirements above and beyond those previously required by similar grants. Local governments and their auditors need to be aware of which grants include ARRA funds and the additional requirements related to those funds. The new requirements can be onerous and require additional accounting and reporting.

Transparency and Accountability

ARRA requires that the recipients and uses of all funds are transparent to the public, and the public benefits of those funds are reported clearly, accurately and in a timely manner. It also requires recipients of the funds to ensure that funds be used for authorized purposes and instances of fraud, waste, error, and abuse are mitigated.

Recipients of ARRA funds must agree to maintain records that identify adequately the source and application of ARRA funds. In most cases, this will require separate accounts for ARRA funds. Federal agencies and pass-through entities are required to identify ARRA awards to recipients and subrecipients, so it should be no surprise that ARRA funds are being used.

Crosscutting Compliance Requirements

There are certain new requirements that are typical to all ARRA grants. They include the following:

1. ARRA funds may not be used for any casino or other gambling establishment, aquarium, zoo, golf course, or swimming pool.
2. The Davis-Bacon Act is applicable to all ARRA-

funded contracts with wages on construction projects exceeding \$2,000.

3. All iron, steel, and manufactured goods used in the construction, alteration, maintenance, or repair of a public building or work must be produced in the United States. This is known as the “Buy American Act.”
4. ARRA requires quarterly on-line submission of accounting reports which includes reporting of jobs created and/or retained.
5. Prime recipients must notify subrecipients of the requirement to register in the Central Contractor Registration website and obtain a DUNS number.

CFDA Numbers

Federal agencies are using new CFDA (Catalog of Federal Domestic Assistance) numbers for existing programs for which the ARRA provides for compliance requirements significantly different for ARRA funding. Federal agencies may or may not use new CFDA numbers for ARRA awards to existing programs with no changes or minor changes. Pre-ARRA awards and ARRA programs will generally be clustered for reporting on the Schedule of Expenditures of Federal Awards (SEFA). Also, ARRA awards should be identified separately from non-ARRA funds.

Audit Requirements

Due to the inherent risk related to the new transparency and accountability requirements over expenditures of ARRA awards, the auditor should consider all Federal programs with expenditures of ARRA awards to be programs of higher risk. In fact, the National State Auditors Association received a letter from Gil Tran, Policy Analyst at OMB, telling them that if a grant has even one dollar of ARRA funds, the entire grant would be considered high risk. Also, any cluster to which a Federal program with a new ARRA CFDA number has been added should be considered a new program and would not qualify as low risk.

Auditors must test each of the crosscutting compliance requirements identified above. They also need to be aware that additional internal control work will probably be required especially if ARRA and non-ARRA expenditures are handled separately. ARRA requires that weaknesses in internal control be communicated “early” so that they can be corrected as soon as possible.

Happy recovery!

See inside for details of our
Annual Regional Training Seminars
coming to a city near you,
and our
Annual Governmental Auditing Update
for all CPAs auditing
local governments in Utah

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