



## Local Governmental Auditing and Accounting

# Newsletter

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### LOCAL GOVERNMENT DIVISION

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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.

## MINUTES OF PUBLIC MEETINGS

At the very foundation of our democratic form of government, is the premise that all government business must be done out in the open. . . in public meetings in full view of public scrutiny. We have the open meetings law which ensures that all citizens have access to the affairs of government. That instead of getting together privately to make the decisions that affect all of us, our leaders are required to advertize their meetings and give advanced notice and make them available to all that have a desire to attend and offer input. We also have laws that make records of the government available to it citizenry. Utah State Code contains what is often referred to as GRAMA or Government Record Access Management Act which allows for the retention, classification, and access of government records. A very important aspect of this whole process is the requirement of taking minutes of all public meetings. Utah Code Section 10-6-603 requires cities and towns (and other forms of government have similar statutes) to take minutes of all public meetings and make a record of all of their proceedings. This is extremely important and failure to do so can expose the municipality, county, or special district to legal action for failure perform its responsibilities.

In recent months, the State Auditor's Office, has been aware of instances where disagreements have arisen between a mayor and the city council, or among county commissioners. One party would say a particular action was approved and the other party would flatly deny that it was ever discussed and when the minutes are consulted, they (the minutes) can either put the matter to rest or be an embarrassment because of their inadequacies. Accurate and complete minutes are critical.

The State Auditor's Office is often brought in to these disputes by virtue of the nature of our Office. When the meeting minutes do not substantiate what is being expounded and we can tell that the minutes are generally very sketchy and not as complete as we would hope, we can empathize but can only go by what appears in the minutes. We, therefore, strongly encourage all clerks, records, secretaries or whoever this important task falls to, to realized the importance of their responsibility and strive to produce complete and accurate minutes so that the affairs of government will be recorded as they happened.

## **DEPUTY STATE AUDITOR APPOINTED**

Utah State Auditor, Auston Johnson, has announced a change of assignment in the State Auditor's Office.

Joseph Christensen, CPA, will assume responsibility for the office as deputy state auditor. Mr. Christensen has been serving as an audit director since 1990. He has directed financial and compliance audits of various colleges, universities and state agencies, including the State's Comprehensive Annual Financial Report (CAFR). Mr. Christensen joined the office in 1986.

Mr. Johnson stated, "Joe has always demonstrated the highest levels of professionalism and is ready for the added responsibility of being deputy state auditor."

Mr. Christensen graduated with a Masters degree from Brigham Young University in 1983 as an accounting and auditing major. He obtained his certified public accountant license in 1984.

Mr. Christensen is actively involved in professional associations. He is a member of the American Institute of Certified Public Accountants (AICPA) and the Utah Association of Certified Public Accountants (UACPA). He is currently serving on the Quality Control Review Committee of the National State Auditor's Association. He also helped organize the Utah Government Auditors Association and has served on its Executive and Training Committee for many years.

## **FEE-IN-LIEU**

The revenue described in State law as "statewide uniform fee in lieu of the ad valorem tax" on certain motor vehicles and state-assessed commercial vehicles under 12,000 pounds has characteristics of both a tax and a fee (charges for services).

When the Legislature changed the assessment of the property tax on tangible personal property from a rate set by individual jurisdictions to a state-wide flat fee in 1992, it entitled this charge a "statewide uniform fee in lieu of the ad valorem tax." At this time, the charge was still considered a property tax because it was still based on value (ad valorem). Then in 1998, the Legislature, changed the "fee in lieu" from an ad valorem charge to an age-based charge. Even though the name was changed and the basis on which the tax is assessed it does not change the nature or character of the charge as a tax.

"Charges for services" as defined by GASB are revenues arising "from charges to customers or applicants who

purchase, use, or directly benefit from the goods, services, or privileges provided."

When an individual obtains or renews their license for a vehicle, there are two charges for that license. The first is a license fee and is paid to the state. This part of the charge grants a privilege for the owner to operate the vehicle on roads within the state.

The second charge, however, historically was an ad valorem property tax, and does not bestow any specific privileges to the payer of the tax. Some might say that it does bestow a privilege in that a person may not operate the vehicle without payment of this fee. But the same is true for other types of taxes, too. A person may not continue to own property if property taxes are not paid. Therefore, not only does the payment of this tax not bestow a privilege, it also does not directly benefit the taxpayer since the proceeds are not restricted as to use.

Paragraph 38 of GASB Statement No. 34 states: "An objective of using the net (expense) revenue format is to report the relative financial burden of each of the reporting government's functions on its taxpayers. This format identifies the extent to which each function of the government draws from the general revenues of the government or is self-financing through fees and intergovernmental aid....This notion of burden on the reporting government's taxpayers is important in determining what is program or general revenue."

The assessment of this "fee" is based on ownership of an asset, just as taxes for real property or other personal property (such as airplanes, recreational vehicles, etc.). The only difference is that this fee is based on the age of the vehicle and not on its value.

Finally, State law requires this fee to be allocated by counties to local governments based on the ad valorem tax rates for real property. Then in turn, it requires local governments to allocate the fee to its funds based on the individual tax rates imposed by that entity.

In our opinion, this fee is like any other property tax except for its name and the way it is assessed. Therefore, fee in lieu of ad valorem taxes should not be reported as a charge for services in the financial statements under the new model, but rather as a general revenue.

Perhaps a less critical issue is whether the fee in lieu should be reported as part of the property taxes received by the entity, or whether it should be reported separately. These fees are a tax, but they are different from other property taxes in that they are not an ad valorem tax. Therefore, in the spirit of full disclosure, it is the recommendation of the State Auditor's office to report these motor vehicles and state-assessed commercial vehicles under 12,000 pounds separately from other property taxes, where the information is available for separate reporting.

## ADDITIONAL INFORMATION INCLUDED IN NEWSLETTER

Included in this edition of the *Newsletter* is a summary of legislation passed in the 2001 Legislature. The summary includes just a few of the bills affecting local governments in Utah. We tried to summarize those bills having an effect on budgeting and financial reporting, among other issues. We were not able to include an exhaustive list of bills passed because of space limitations. However, a complete list of bills passed in the 2001 session can be found on the internet at [www.le.state.ut.us/asp/passedbills/passedbills.asp](http://www.le.state.ut.us/asp/passedbills/passedbills.asp)

Also, certain recipients of this newsletter will also receive a special insert on "Sampling and the Single Audit." It is a reprint of an article originally appearing in the *CPA Government and Nonprofit Report*, September 2000, Volume 8, Issue 9. It is reprinted with permission from Aspen Publisher, Inc. We appreciate their willingness to allow us to share this important information with you.

Since this is an audit issue, we felt that the article would only be of interest to certain recipient's of the *Newsletter*. Therefore, it may not be included in your copy of the *Newsletter*. If you would like to receive a copy of this article, please MacRay Curtis at (801) 538-1335 or Jon Johnson at (801) 538-1384 and we would be happy to send a copy to you.



## *Announcing....*

### Utah State Auditor's Office *ANNUAL SPRING REGIONAL SEMINARS*

For all elected and appointed government officials from cities, towns, counties, special districts, and school districts. We will be discussing current financial issues for local governments, providing a legislative update, and holding our annual budget session for new budget officers. The Tax Commission will be providing an update on property tax issues.

#### **Eight locations to choose from:**

Tuesday, March 27, 9:00 - 12:00  
**South Ogden** - City Council Chambers  
560 39<sup>th</sup> Street

Thursday, March 29, 9:00 - 12:00  
**Logan**, Cache Co. Council Chambers  
120 North 100 West

Friday, April 6, 9:00 - 12:00  
**Orem**, City Council Chambers  
56 North State Street

Monday, April 23, 9:00 - 12:00  
**Price** - Room 207, Price City Offices  
185 East Main Street

Tuesday, April 24, 9:00 - 12:00  
**Vernal** - County Comm. Chambers  
147 E. Main

Thursday, April 26, 9:00 - 12:00  
**St. George** - Washington Co.  
Commission Chambers  
197 E. Tabernacle

Friday, April 27, 9:00 - 12:00  
**Richfield** - County Admin. Bldg  
Commission Chambers

Monday, April 30, 9:00 - 12:00  
**Salt Lake City** - State Office Building  
Auditorium, Capitol Hill

## **FUND ACCOUNTING - GENERAL FIXED ASSETS ACCOUNT GROUP**

With this issue we continue with the sixth article in a series on fund accounting. This series should be helpful for all sizes of governmental 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 general fixed assets account group. Please note that this is not a fund; but, rather an account group which belongs to the governmental fund-type area. The only other account group belonging to this is the general long-term debt account group which we will discuss in our next *Newsletter*.

### **The General Fixed Assets Account Group (GFAAG)**

The GFAAG is not a fund and therefore does not report results of operations, i.e., revenues and expenditures. It is only shown in the balance sheet of the financial statements. It is simply meant to demonstrate accountability for the fixed assets owned by the governmental entity. Fixed assets are generally considered to be items which have a useful

life of more than one year and are fairly expensive. How expensive an item must be to be considered a fixed asset for financial reporting purposes is a policy decision of the entity; but, often it is over \$1,000, and sometimes very much more depending upon the size of the entity.

The GFAAG should show the total of the costs of all the entity's fixed assets. When a new fixed asset is purchased, its cost is simply added to the total. When a fixed asset is disposed of, its cost is simply taken out of the total. There are no provisions for depreciation at all. Additions to and deletions from the GFAAG are disclosed in the notes to the financial statements.

It is important, even for small entities, to show their fixed assets in the GFAAG in order to keep them out of the general fund's fund balance. If fixed assets were reported (shown) in the general fund they would distort the fund balance which might cause a problem with legal fund balance limitations. Also, the entity should keep information on each fixed asset, such as: a description of the asset, date purchased, cost, where the asset is kept, how long it is expected to last, and other useful information. Such information is needed to help safeguard the asset and to help management for planning purposes.

UTAH STATE AUDITOR'S OFFICE  
211 STATE CAPITOL  
SALT LAKE CITY, UT 84114

Return Service Requested

**LEGISLATION - BILLS PASSED  
2001**

- SB 23 Special District and Local District Amendments (Gladwell)**  
This act modifies provisions relating to Special Districts and Limited Purpose Local Government Entities to rewrite and standardize annexation and dissolution provisions for specified special districts and for local districts.
- SB 35 Public Education Capital Outlay Act Amendments (Waddoups)**  
Deletes provisions regarding an emergency building needs program that terminates on June 30, 2001. It increases the state appropriation for the capital outlay foundation program from \$28,358,000 to \$38,358,000.
- SB 39 Allowable Use of County and City Resources (Buttars)**  
The act authorizes counties and cities to use resources for private, nonprofit entities. After first holding a public hearing, a county may provide services or give other nonmonetary property or assistance to or waive fees required to be paid by a nonprofit entity, whether or not the county receives consideration in return
- SB 70 RDA Tax Increment From School Districts (Stephenson)**  
Each time a school representative votes as a member of a taxing entity committee to allow an agency to be paid tax increment or to increase the amount or length of time that an agency may be paid tax increment, that person shall, within 45 days, provide to the representative's respective school board a written explanation of, and the reasons for the vote. Also, the assessor of each county in which the agency is located must provide a report to the taxing entity committee stating the base taxable value and the assessed value for each property within each project area
- SB 80 County Statutes Revision (Gladwell)**  
Part 2 of the county recodification process. The act modifies county budget provisions, including the designation of the county budget officer. The act modifies county clerk, county treasurer, county auditor, and county recorder provisions. The act authorizes the county executive and county legislative body to exercise limited direction and supervision over other county elected officers and modifies executive functions and powers. The act imposes a one-year limit on actions against a county legislative body or county executive for decisions they make. The act makes many other changes.
- SB 168 Certain Municipal Services in First Class Counties (Blackham)**  
Requires Salt Lake County to provide detective investigative services in its unincorporated area. The act requires the county to decrease its countywide tax levy by a specified amount. Also, authorizes cities and towns located within the county to increase their tax levy to generate within the city or town the same amount of revenue as the county would have collected from within the city or town.
- SB 226 Property Tax - Notice of Appeals (Jenkins)**  
Allows a county to be a party to an appeal hearing for centrally assessed property if the county can show reasonable cause for being included.
- SB 234 Sales and Use Tax - Botanical, Cultural, Recreational, and Zoological Organizations or Facilities Amendments (Hillyard)**  
Allows a city or town to impose a tax beginning on or after January 1, 2003 for the support of recreational and zoological facilities and botanical, cultural, and zoological organizations if the county in which the city or town is located does not impose a similar tax.
- SB 237 Excise Tax Bond Process (Valentine)**  
Modifies the Municipal Bond Act provisions governing revenue bonds payable from excise tax revenues. This act establishes a process for notice and a public hearing on the issuance of revenue bonds payable from excise tax revenues and requires the question of whether or not to issue the bonds to be submitted to a vote of the people upon receipt of a petition signed by 20% of the registered voters.

- HB 7 Recodification and Amendments of RDA Statutes (Harper)**  
Recodifies RDA statutes. The act modifies the procedure to create an agency. Expands the group of agencies that qualify to use certain tax increment funds and modifies the role of the taxing entity committee. Modifies and clarifies the process for adopting a project area plan and a project area budget and clarifies the uses of tax increment. Modifies and clarifies definitions, including the definition of blight, and clarifies the distinctions among and the requirements and other provisions applicable to redevelopment, economic development, and education housing development. The act also clarifies notice and hearing provisions and provisions relating to owner's rights.
- HB 38 School District Voted Leeway Amendments (Garn)**  
Increases the value of the state guarantee for voted and board leeways. The act increases the guarantee from .0075 times the value of the prior year's weighted pupil unit to .008044 and by .0005 for each succeeding year until the guarantee is equal to .010544 times the value of the prior year's weighted pupil unit.
- HB 40 Funding for Textbooks (Stephens)**  
This act provides an appropriation of \$23,790,000 in one-time monies to purchase new textbooks. Requires the State Board of Education to design and implement a statewide plan to provide for an adequate supply of textbooks for students on an ongoing basis and to replace outdated textbooks or textbooks in poor condition.
- HB 107 Tourism Marketing Amendments (Allen)**  
The act clarifies the purposes of the transient room tax and the tourism, recreation, cultural, and convention facilities tax. The act requires counties with no existing tourism tax advisory boards to create and utilize a tourism tax advisory board.
- HB 118 Mineral Lease Amendments (Young)**  
Allows a county that receives in lieu tax payments appropriated from the Mineral Lease Account to distribute the money to school districts.
- HB 139 Cities and Towns - Classification and Related Issues (Harper)**  
Changes the population numbers for city and town classification. Also, requires towns to have tentative budget presented to council and made available to public by first meeting in May. Also, requires publication in a newspaper of general circulation at least 7 days prior to hearing. (48 hours notice by posting if newspaper of general circulation is not available.) Also, budgets must be adopted by June 22nd, or if the town anticipates a tax rate increase, by August 17th.
- HB 206 Counties Accumulation of Retained Earnings (Hatch)**  
Most counties may accumulate fund balances in the general fund of up to 50% of total general fund revenues.
- HB 245 Utah Procurement Code - Reverse Auctions (Stephens)**  
Modifies the procurement code by authorizing the use of reverse auctions to award contracts. Reverse auction means a process where contracts are awarded in an open and interactive environment where bids are opened and made public immediately, and bidders given opportunity to submit revised, lower bids, until the bidding process is complete.
- HB 252 Judiciary Amendments (Tyler)**  
Requires municipal justice courts to make deposits of public funds in accordance with the Money Management Act (i.e., within three days instead of 7 days.)
- HB 313 Property Tax Relief (Tyler)**  
Addresses property tax exemptions, abatements, and other tax relief and extensions of filing deadlines. This act addresses tax relief claimed for disabled veterans or related persons, by blind persons or related persons, and for indigent persons. This act clarifies the relationship between different property tax relief programs.
- HB 354 Property Tax Relief Amendments (Winn)**  
Modifies the Property Tax Act to address property tax exemptions, abatements, and other tax relief. The act requires a county under certain circumstances to make refunds to persons granted property tax relief. This act addresses extensions of filing deadlines. This act addresses tax relief claimed for disabled veterans or related persons, tax relief claimed by blind persons or related persons, and tax relief for indigent persons. This act clarifies the relationship between different property tax relief.