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.

WHO OWNS THE ROAD?

With the implementation of GASB 34, there is a new interest in infrastructure and its significant effects on the financial report. We realize that the value of roads and bridges is an important addition to the financial statements and the values can be determined without too much difficulty. But have you considered the value of the land underneath all the roads, bridges and streets? In most cases, government entities own the land underneath the road and therefore, the land should be considered as an asset belonging to the government entity.

Government entities acquire land in basically three different ways:

The first method is to received land by dedication, that is, from a developer who completes a subdivision and records the subdivision with the county recorder. These subdivisions typically have designated easements for the various utilities as well as public thoroughfares or roads built according to specifications required by the county or municipality. Once these roads are finished and meet the standards set by the government entity, they are dedicated or turned over to the government for continued maintenance and future improvements, if deemed necessary.

The second method is when a road is deeded to the government entity by the previous owner, either as the result of a gift or as an outright purchase.

The third method is called "right of use." When a roadway is used by the public for a period of 10 continuous years, then the government entity establishes what is termed "right of use" which means that the public has established a legal right to use the road even though no deed is held to the property and no payment has ever been made to establish or transfer ownership. That is why some private institutions such as colleges or universities will close their campuses for a day on a periodic basis so as to prevent the public from establishing right of use on their private property.

Using the first two methods, the government entity establishes ownership of the road as well as the land underneath the road. The value of the land then should appear on the financial statements as an asset. Using the third method, the government owns only the road and the right of way or right of use. The ownership of the land under the road actually stays with the abutting landowner.

Initially, one major difficultly governments will have in implementing GASB 34 is determining ownership of land by going through their inventory of roads and classifying them according to how they were acquired, and then establishing a value based on historical cost. Otherwise, an estimated value should be determined based on the fair market value at the acquisition date.

NON-PROFIT CORPORATIONS AND THE STATE LEGAL COMPLIANCE AUDIT GUIDE

Non-profit corporations that receive at least 50% of their funds from federal, state, or local government entities are required to follow the guidance of the State of Utah Legal Compliance Audit Guide. Non-profit corporations that meet the 50% test must file financial reports with the State Auditor's Office. An audit is required if the revenues or expenses are greater than $150,000. If revenues or expenses are between $50,000 and $150,000, a compilation or review by a CPA is required. If less than $50,000, financial information should be reported on forms provided by the State Auditor's Office.

For non-profit corporations required to submit audited financial statements with the State Auditor's Office, the audit must be performed in accordance with government auditing standards. This means that the financial statements must include a *Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*, or what is sometimes referred to as a yellow book opinion. As we review financial reports, rarely do we have problems with yellow book opinions not being included with the financial statements.

It is also important to determine if the non-profit corporation has any state major programs. State major programs are defined as state grants, contracts (including provider contracts), programs, and loans with expenditures over $100,000. If a non-profit corporation is required to have an audit and also has a state major program (as defined above) the financial statements should include an *Auditor's Report on State Legal Compliance*. CPAs auditing non-profit corporations that are required to submit an *Auditor's Report on State Legal Compliance* are not required to test for general compliance requirements (as found in the State Legal Compliance Audit Guide), but test only for specific compliance requirements relating to the state major program.

As the State Auditor's Office reviews the non-profit corporation's financial statements, it is sometimes unclear as to whether the CPA has adequately determined if there were any state major grants. Revenue detail in the financial statements does not necessarily have to be such that every grant, contract, program, or loan are listed separately. However it is important for the CPA to identify all revenue streams and determine if the non-profit corporation has any state major programs. If state major programs are identified, an *Auditor's Report on State Legal Compliance* must be included with the financial statements.

One last reminder, if audit findings were issued, a copy of the letter to management as well as the responses to the specific findings must also be submitted with the financial statements. Financial statements that omit management letters and client responses will not be accepted by the State Auditor's Office.

If you have questions regarding non-profit corporations, you can call Kent Godfrey at 801-538-1384 or e-mail him at kgodfrey@sao.state.ut.us.

ANNOUNCING ANNUAL TRAINING FOR CPA'S

The State Auditor's Office has scheduled its annual Government Auditing Update for May 9, 2002. Because of the major construction taking place on Capitol Hill, this year's event will be held at the Miller Campus of Salt Lake Community College located at 9750 South 300 West in Sandy. The facility is large enough, and to hold costs down, only one session will be held, starting at 1:00 p.m. In the past we have had to hold two sessions to accommodate everyone in the auditorium of the State Office Building.

This year's agenda will include discussions on State Legal Compliance and Single Audit issues, changes in financial reporting, and auditor independence. We'll also spend some time on CPA's helping new government entities and a legislative update. Time allowing, we will also have an open forum where CPAs can ask questions that concern them in their government practice.

The cost this year is set at $40. Registration materials will be sent out to all CPA's on our mailing list later this month.

FINANCIAL REPORTS AND UT FORMS

Many of you have a fiscal year end of December 31, which means it is time for you to arrange for a compilation, or an audit; or, to prepare your statements on forms sent to you by us (the yellow ones). If either, your revenues or expenditures for the year 2001 were over $50,000, but both were less than $150,000, you will only need a compilation or a review by a CPA. If either your revenues or expenditures for the year 2001 were over $150,000 you will need to have an audit done by a qualified CPA. The financial statement forms filled out by you, the compilation, or the audit are due in our office by June 30 , if your fiscal year end is December 31.

Last October most of you received from our office a UT form, also called a census form, or Survey of Local Government Finances form. These forms are required to be filled out and returned to our office by June 30, if your fiscal year end is December 31. We strongly recommend that the UT form be submitted to our office along with your audited or unaudited financial statements in order to avoid loss or failure to send it. Cities and counties may submit their UT forms electronically. Please understand that the UT form does not take the place of the financial statements. **Both are required**. The following entities do not need to submit a UT form: school districts, housing authorities, not-for-profit entities, and entities created under the interlocal agreement act.

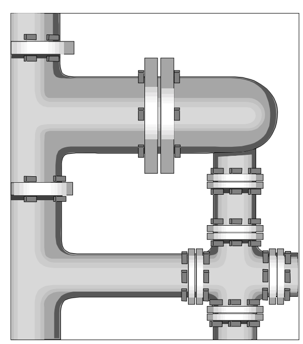
A word about the single audit and management letters. Single audits and management letters, especially those with state legal compliance findings, should also be submitted with the financial statements. Again, this is to avoid loss or failure to submit. We have had some instances where these documents were not submitted together and as a result you were not given credit for having submitted all parts of the "package," either because parts were lost, sent to wrong addresses, or assumed to have been mailed when they were not. If your financial statements involve an auditor, please have a clear understanding about who will mail these documents to our office. We have had reports come in late, or piecemeal, because the auditor or management assumed the other had mailed the documents to our office.

So, in conclusion, a "reporting package" should include: the financial statements; the UT form, if applicable; all single audit reports, including the corrective action plan, if applicable; and, the management letter with management's comments, if applicable.

IMPACT FEES AND CONNECTION FEES REPORTING

Governments usually require developers to pay a fee to help defray some of the costs associated with new developments. These fees are traditionally called developer fees or more commonly referred to as impact fees. Another fee normally required to be paid by a developer is a connection or tap fee. These fees represent the cost to connect to an existing system. Only the actual cost to connect should be considered a connection fee. Any fees in excess of the actual cost to connect should be considered an impact fee.

How does GASB 33 and 34 change the way impact fees and connection fees are reported? Impact fees in the past have been considered contributed capital and reported only on the balance sheet in the proprietary funds. The fees were never reported as revenue on the statement of revenue, expenses, and changes in retained earnings; therefore, they have never been included in retained earnings. Connection fees have been recognized as an operating revenue in the financial statements.



GASB 34 has now introduced two new statements- the statement of net assets and the statement of revenues, expenses and changes in fund net assets for proprietary funds. These new statements deal with the concept of net assets and not retained earnings; therefore contributed capital is no longer reported under GASB 34. Impact fees are classified as imposed non-exchange revenue, therefore under GASB 33 the full amount of the fee should be recognized as a receivable and revenue as soon as the government has established an enforceable legal claim. The impact fees should not be considered operating revenue, but as a capital contribution, a non-operating revenue. If the resources are to be used for capital acquisition or related debt service they should be reflected as restricted net assets.

Connection fees are classified as exchange transactions for the portion of the fee that is intended to recover the cost of connecting new customers to the system. This fee should also be recognized as a receivable and revenue as soon as the connection is made. This is no different than under the old model. Under the new guidance the only difference between an impact fee and connection is that connection fees are reported as operating revenue while impact fees are reported as non-operating revenue.

Everyone should have already implemented GASB 33; however many will not implement GASB 34 for another year or two. So how does one account for impact fees as a receivable and revenue when still following the old model that uses contributed capital and retained earnings? Guidance for the transition period is to keep the contributed capital account on the balance sheet, but recording any new impact fee that normally would increase contributed capital as a receivable and revenue. Therefore retained earnings will be increased by the amount of the impact fees. For the transition period, the balance sheet will included contributed capital and the statement of revenues, expenses, and changes in retained earnings will report capital contributions as a non-operating revenue. The contributed capital amount will become part of net assets when GASB 34 is implemented.

Utah State Auditor's Office

ANNUAL SPRING REGIONAL TRAINING SEMINARS

For all elected and appointed government officials from cities, towns, counties, special districts, and school districts. We will be discussing current financial issues including: working with your independent auditor; Survey of Local Government Finances Form; and GASB Statement 34 issues for local governments. We will also provide a legislative update and hold our annual budget session for new budget officers. The Tax Commission will be providing an update on property tax issues.

Choose from the following dates and locations -
(Note the change in times and places this year!!)

Monday, April 1, 1:00 p.m.- 5:00 p.m.
South Ogden City Offices
560 39th Street

Wednesday, April 3, 1:00 p.m. - 5:00 p.m.
Parowan City Offices
68 South 100 East

Friday, April 5, 9:00 a.m.- 1:00 p.m.
Orem City Offices, Room 102
56 North State Street

Monday, April 8, 9:00 a.m. - 1:00 p.m.
Price City Offices,
185 East Main

Tuesday, April 9, 9:00 a.m. - 1:00 p.m.
Salt Lake City
State Capitol, Room 405

Monday, April 15, 1:00 p.m. - 5:00 p.m.
Auditorium - County Administration Bldg.
250 North Main, **Richfield**

Friday, April 26, 1:00 p.m. - 5:00 p.m.
Uintah County Commission Chambers
147 East Main Street, **Vernal**

Monday, April 29, 9:00 a.m. - 1:00 p.m.
Bridgerland Applied Tech Center, Room 901
1301 North 600 West, **Logan**
Room 201
Street

SUMMARY OF LEGISLATION AFFECTING LOCAL GOVERNMENTS - 2002

HB 166 Public Review of Municipal Appropriations and Resources (R. Barrus). Sets standards and requires studies and hearings for certain appropriations. However, appropriations approved under the Fiscal Procedures Acts for Cities and Towns are exempt from these requirements. Also, limits appropriations to nonprofit entities to 1% of the municipality budget for a given year.

HB 184 Impact Fees Act Amendments (G. Way). Requires private water companies providing culinary water as a condition of development to follow the same requirements as local political subdivisions before implementing impact fee charges.

HB 193 Redevelopment Agencies Notice Requirements (M. Stephens). Clarifies that an RDA has met it's filing requirements for the state as a taxing entity if it files it's annual budget and financial report with the State Tax Commission and the State Auditor.

HB 201 Property Tax - Judgement Levy (W. Harper) Local governments may not impose a judgment levy for judgments less than $5,000 or 2.5% of property taxes collected in the previous fiscal year. Also, judgments for less than those amounts must be paid within 60 days of the final judgment.

SB 18 Uniform Withdrawal Procedures for Special Districts (D. Gladwell). Creates a uniform procedure for withdrawal from special or local districts, and provides a process for a local district and a municipality to jointly adjust the boundaries of a local district.

SB 30 Funding Formula for Alcohol Related Activities of Local Governments (M. Waddoups). Provides that a municipality that does not have a law enforcement agency does not qualify for an allocation of Liquor Law Enforcement funds, unless it can demonstrate to the Utah Substance Abuse and Anti-Violence Coordinating Council that it can use the money for specified purposes. Money which would otherwise go to these municipalities would then be allocated to the related county. Payments may be suspended to municipalities or counties not using the monies for the specified purposes.

SB 55 Amendments to Utah Uniform Building Standards Act (P. Hellewell). Modifies the circumstances in which political subdivisions are required to follow codes adopted by the Division of Occupational Health and Professional Licensing, in collaboration with the Uniform Building Code Commission.

SB 82 County Personnel Management Act Amendments (B. Evans). Raises the threshold for an exemption from the requirement to have a merit system of personnel administration from 130 to 200. Counties who previously were required to have a merit system are not exempted if they fall under the new threshold.

SB 116 Local Government Variable Rate Bonding Authority (C. Butters). Provides authority to special improvement districts to use variable rate bonds for community improvements, affordable housing, and commercial/industrial developments.

SB 128 Open and Public Meetings Revisions (G. Davis). Requires that written minutes or a digital or tape recording be kept of all open and closed meetings. The minutes and recordings are public records. Digital or tape recordings must be converted to written minutes within a reasonable time upon request.

OTHER BILLS PASSED:

HB 24 Revisions to Redevelopment Agency Laws (W. Harper).
HB28 Governmental Immunity Amendments (W. Harper).
HB 34 Tourism Amendments (S. Allen).
HB 48 Local Substance Abuse Authority Amendments (P. Ray).
HB 75 Cemetery Maintenance District Amendments (E. Anderson).
HB 137 Limited Purpose Local Government Agencies Amendments (D. Peterson).
HB 212 Special Service District Amendments (E. Anderson).
HB 241 County Health Departments - Operational Structure (K. Garn).
HB 330 Use of County General Fund Expenses (E. Hutchings).
HJR 14 Joint Resolution - Debt Limits for Political Subdivisions (W. Harper).
HJR 30 Resolution to Expand the Government Property Tax Exemption (D. Clark).
SB 20 Bonding Authority for Irrigation Districts (D. Gladwell).
SB 30 Interlocal Cooperation Act and Electric Power Facilities Amendments (L. Blackham).
SB 65 County Law Revisions (D. Gladwell).
SB 66 Revenues From Federal Land Exchange Parcels (M. Dmitrich).
SJR 10 Resolution Amending Revenue and Taxation Provisions of Utah Constitution (J. Valentine).

The text of these bills and others that you may be interested in may be found on the Legislature's website at www.le.state.ut.us/Documents/bills.htm. Also, the governor has not completed his review of legislation. Therefore, these bills are subject to veto.