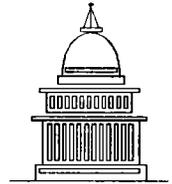




Local Governmental Auditing and Accounting

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.

FDIC INSURANCE

Many local governments are not aware of recent changes in FDIC Insurance coverage on deposits with financial institutions. It is important to be aware of this coverage so that you know how much of your local government's deposits are insured, and so that insured deposits are accurately reported in the notes to the financial statements. The following two paragraphs are from *Deposit Insurance Fact Series - Public Units*, published on the FDIC's website.

"The insurance coverage of public unit accounts depends on (1) the type of the deposit; and (2) the location of the insured depository institution. All 'time and savings deposits' owned by a public unit and held by the same official custodian in an insured depository institution **within the State** in which the public unit is located are added together and insured up to \$100,000. Separately, all 'demand deposits' owned by a public unit and held by the same official custodian in an insured depository institution within the State in which the public unit is located are added together and insured up to \$100,000. For the purpose of these rules, the term 'savings deposit' includes NOW accounts, money market deposit accounts, and other interest-bearing checking accounts.

"The insurance coverage of public units is different if the depository institution is located **outside the State** in which the public unit is located. In that case, all deposits owned by the public unit and held by the same official custodian are added together and insured up to \$100,000. Time and savings deposits are not insured separately from demand deposits." (Emphasis added.)

Therefore, if a local government has both demand deposits and time and savings deposits with an in-state bank, it has the potential of up to \$200,000 in FDIC insurance. However, the coverage with banks outside the state would still be limited to \$100,000.



Under State law in Utah, each local government has only one official custodian. However, it would appear that legally separate discrete component units each have their own separate official custodian.

This Fact Sheet can be found on the internet at <http://www.fdic.gov/deposit/deposits/FactSheet.html>.

REVENUE RECOGNITION ISSUES

In December 1998, the Governmental Accounting Standards Board (GASB) issued Statement #33 entitled *Accounting and Reporting for Nonexchange Transactions*. The requirements of this Statement are effective for financial statements of all local governments in Utah with fiscal years ending June 30, 2001 or later. Several issues and questions have arisen regarding how to apply these new requirements in relation to Utah law and requirements.

Sales Tax. It is important to distinguish whether certain revenues are derived tax revenues (i.e., sales taxes) or shared revenues, since the timing of reporting those revenues may be different. There has been some question as to whether sales taxes collected by the State of Utah and allocated to local governments based on a formula (50% on point of sale and 50% on population) is a derived tax revenue or a shared revenue.

State law provides that the sales tax distributed by this formula is distributed only to local governments who imposed that tax. Therefore, it is classified as derived nonexchange revenue, and should be recorded in the period when the underlying transaction occurred (i.e., when the merchant makes the sale) where the accrual basis of accounting is applicable. Under modified accrual accounting, the receivable is recorded in the period when the underlying transaction occurs, and revenue is recorded in the same period if it is "available."

B & C Road Funds. A similar issue exists with B & C Road funds as with sales tax. State law treats these funds as a grant, under formula, that must be used for a specific purpose. These revenues are voluntary nonexchange transactions. Although they have purpose restrictions, they do not have eligibility requirements, and therefore should be recognized as revenue and receivable in the period the allocation is made by UDOT. Again, the "availability" criteria apply to reporting in funds using the modified accrual basis of accounting. Also, unused amounts should be reported as restricted net assets.

Property Taxes. Property taxes are considered an imposed nonexchange transaction. The asset (cash or receivables) for imposed nonexchange transactions are required to be reported in the period when an enforceable legal claim to the assets arises or when the resources are received, whichever occurs first. This asset must be reported whether the property taxes are being reported on the accrual or modified accrual basis of accounting. Generally, an enforceable legal claim arises on the "lien

date."

The question is: When do local governments have an enforceable legal claim to those property taxes? In Utah Code Section 59-2-1325 indicates that liens related to property tax attach as of January 1st of each year. Case law clarifies that the lien date is retroactive to January 1st of the year the tax is assessed and takes priority over liens attached subsequent to that date. Therefore, an enforceable legal claim to the property taxes arises on January 1st of each year.

This means that real property taxes that are collected for fiscal year entities in November should be recognized as property taxes receivable at June 30th of that same year. This receivable would probably be offset by a deferred revenue since revenues from property taxes are recognized in the period for which the taxes are levied. Recording a receivable and an offsetting deferred revenue results in a zero net effect on net assets.

We have been asked how a local government should estimate this receivable since the property taxes are not normally received until after the financial statements are published. It seems that the estimate would not be too difficult since property values are known and tax rates are set no later than August. Also, even if the estimate is different from actual property tax revenues, there is no net effect on net assets/fund balance.

Capital Contributions. Capital contributions prior to GASB Statement #33 were reported as additions to contributed capital, and did not appear on the operating statement. GASB Statement #33, however, indicates that capital contributions should be reported as revenue. GASB Statement #34, paragraph 100 requires that this revenue be reported following the nonoperating revenues and expenses section of the operating statement. When the new reporting model is implemented, the account "contributed capital" will no longer be used, and the related balances will be reported as net assets.

LEGAL COMPLIANCE AUDIT GUIDE

The State Legal Compliance Audit Guide is updated yearly for changes in laws and program requirements. In past years, we have distributed hard copies of the updated Audit Guide at our annual training for CPAs in the spring. However, this year we did not hold that training since we were providing regional training on the new reporting model.

Certified Public Accountants and others interested in the Guide can obtain the updated manual on the State Auditor's website at <http://www.sulcag.sao.state.ut.us/>. It is anticipated that with the widespread use of the internet, future updates will only be available on our website.

AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Financial statements for businesses and governments are increasingly available throughout the world on the internet. Indeed, the audited financial statements for local governments in Utah are available on the internet, and people outside the United States have accessed those reports. Therefore, it is important that users of financial statements know what standards were followed in preparing and auditing the financial statements. Statement on Auditing Standards #93 requires that reports on financial statements issued after June 30, 2001 (i.e., auditor's reports issued after June 30, 2001) issued now include the country of origin of standards applied in preparing and auditing the financial statements.

The second paragraph of an auditor's report, which describes an audit, would be changed to say, "We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States...."

The opinion paragraph would also be changed to state that the financial statements were presented fairly "in conformity with accounting principles generally accepted in the United States of America."

WEB PAGE RESOURCES

By now most of you should be somewhat familiar with the Utah State Auditor's Office web page. We hope you find the web page to be a useful resource. If you are unfamiliar with our web page, www.sao.state.ut.us, this site can provide many of the resources needed to successfully work in the government accounting and auditing arena. The "Reports" section of our web page allows one to view all local government budgets, financial reports, and the Survey of Local Government Finance Forms (UT forms) since 1997. This particular section will become even more valuable as local governments adopt GASB 34 and their financial statements are posted to our web page. The "Reports" section also allows one to view all the reports issued directly by the Utah State Auditor's Office. If a special project audit was performed by our office on a local government, the issued report will be found in this area.

The "Resources" section can also be very useful. Here one can select "Local Government Resources" and find our newsletters, UT forms and instructions, the Uniform Accounting Manual, and the State of Utah Legal Compliance Audit Guide. The "Resources" section also provides links to OMB circulars, the Catalog of Federal Domestic Assistance, the Compliance Supplement, Federal Audit Clearing House, as well as links to GASB, FASB, and GFOA. These are important sites for government accountants and auditors.

Many other useful accounting and auditing tools can be found on our web page. Take some time and explore the many resources available. May we suggest you set our web page up as a bookmark favorite or even make our website your home page. In the "tools" menu there is an "internet option" category which allows you to change your home page.

As you become more familiar with our web site, please let us know of any changes you would like to see. Also let us know of any links that do not appear to work. For questions regarding the web page call Kent Godfrey at (801) 538-1384 or e-mail him kgodfrey@sao.state.ut.us.

CALL US, BUT....

We appreciate your calls to us. Please continue to call us when you have a question or need us to help you in any way. Our telephone numbers are always in this *Newsletter*. As you know, if it is more convenient for you, call us collect. In order to serve you better we still have real live people answering our phones. We hope a real live person answering the phone when you call our office will not confuse you. Just kidding!

Sometimes, however, we are not in the office because we may be out on training or local visit trips. When we are not in the office, you will get a "canned" message, then you can leave a message on our voice mail. We will call you back as soon as we are back in the office. In that situation, if you need immediate help, just dial "0" and someone else will pick up your call and try to help you.

BUT... When you leave a message, **please speak slowly and clearly**. Sometimes the messages left for us are so fast and unclear that we simply can not understand them. Also, please leave your phone number and name, also spoken very clearly. We have been unable to call some of you back because we had either no name or phone number, or because we could not understand either.

SO... Remember, we want to call you back, but can only do so if we know whom to call and have the correct phone number. Thank you for your help.

DISTRICTS!!! YOU'VE GOT MAIL

In October we sent our annual mailing to you. It included your pink budget forms, the Survey of Local Government Finances (UT or census) forms, and for the smaller districts, the yellow financial statement forms. If your revenues or expenditures are greater than \$50,000 you did not get the yellow financial statement forms, because you will have to get a qualified CPA firm involved in doing a compilation, a review, or an audit.

The forms we mailed to you are the same as they have been for many years, but here are the details:

- **Budget forms** - They have a budget calendar and instructions to help you. Please read them both. 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 *Utah Code* you adopted your budget. Be careful of the dates, especially the years!! Some parts of the "Certification" may not apply, e.g., interlocal agreements may not need a hearing; in such a case please so state on the certification. An original,

notarized copy of the budget is due in our office 30 days after the adoption date.

- **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. Both should be sent to our office together. They are due 180 days after your fiscal year end, so keep them and do not misplace them.
- **Financial Statement forms** - They 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, in addition to the UT form, must be completed. An original, notarized, copy is due in our office 180 days after your fiscal year end.

Again, please read all instructions and send the forms to us when due. If someone else has taken your place, please forward this mailing to them. If you need help, please call me, Eckhard, at (801) 538-1394. Thank you for doing such great work!

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

Return Service Requested