



April 2000

*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.

## Required Corrective Action Plans

Some of the financial report review letters we have written this year have received a lot of attention because they have been much more direct and have, in some cases, required the public entity to prepare what we refer to as a "Corrective Action Plan." This term came from the new Single Audit Circular A-133. At the completion of a Single Audit, the auditee is required to prepare a corrective action plan to address each audit finding in the report.

With respect to State compliance issues, several entities have had problems with certain compliance issues for many years and no real progress has been made. When responding to the auditor's management letter, often a general statement about "correcting compliance issues pointed out by the auditor" is offered year after year, but with no real effort or progress made to actually make those corrections.

Because of this situation and pressure by the legislature to make local governments more responsive to legal guidelines, we had been requiring local governments to prepare corrective action plans. The corrective action plan must provide the names(s) of the contact person(s) responsible for the corrective action, the corrective action planned, and the anticipated completion date.

Actually, the corrective action plan is not required until the third year of noncompliance. The first year, our letter merely points out the problems and asks the public entity to address the issue and make corrections so that it does not happen next year. The second year, the letter is considerably stronger and points out that it is the second year of noncompliance and that if it happens a third year, a corrective action plan will be required. Finally, the third year we actually require the corrective action plan to be submitted to the State Auditor's Office.

It is our intent to put the responsibility for improvement squarely on the shoulders of the person responsible for the area of noncompliance. Hopefully, local governments will continue to make improvements in the area of State compliance.



## FUND ACCOUNTING

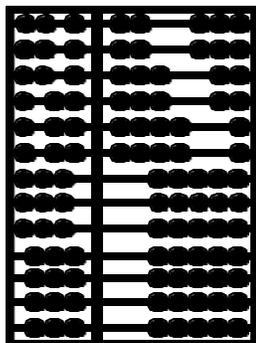
With this issue we continue with the second article in a series on fund accounting. This series should be helpful for all sizes of government entities. Our reason for writing this series is to help government accountants and bookkeepers understand the accounting environment and requirements for local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

### The General Fund -

The chief operating fund of either a state or a local government is the general fund. It is used to account for all financial resources except those required to be accounted for in another fund. In other words, all of a government's financial activities should be accounted for in the general fund unless there is a compelling reason to report them in some other fund. Such a compelling reason would be a legal requirement or the fact that most or all of a government's revenues come from charges or fees for services. If most, or all, of a government's revenues come from fees or charges for services, then the use of an enterprise fund would be more appropriate.

The definition of a general fund precludes multiple general funds, so there should never be more than one general fund. One is sufficient to account for all of the government's activities. This also means that payments for the costs and reduction of all types of debt may be made from the general fund and all capital projects may be paid for out of the general fund. The general fund of a blended component unit should be reported as a special revenue fund in the primary government.

On the other hand, unless an enterprise fund is used, there should always be a general fund. In other words, it would



be incorrect for a government to report a capital projects fund, a special revenue fund, a debt service fund, or any other fund without reporting a general fund.

## SUMMARY OF LEGISLATION

Included as an insert in this Newsletter is a brief list of legislation affecting local governments passed in the 2000 General Session of the There were many other bills affecting local governments. Therefore, this list should not be considered comprehensive.

## MEASUREMENT FOCUS & BASIS OF ACCOUNTING IN THE NEW REPORTING MODEL

As we have described in previous Newsletters, the new reporting model for governmental entities will report financial information in two formats. The first format is called "government-wide" financial statements. The second format is referred to as "fund" financial statements. We will point out the different perspectives of these financial statements and discuss the reconciliation that must be presented to show the relationship between them.

The government-wide financial statements are intended to have a long-term focus. They will provide information that will help governing bodies and citizens make decisions with a long-term perspective. This long-term perspective requires reporting of all assets and liabilities of the governmental entity. It also reflects the condition of the entity and its net assets

from a long-term perspective.

Proponents of this reporting format feel that it will help to encourage governing boards of local governments to maintain infrastructure at a higher level than in the past. One of the criticisms of the current reporting model is that it has such a short-term focus, resulting in governing boards often deferring maintenance of infrastructure in order to look good in the short-term.

The government-wide financial statements will have an “economic resources” measurement focus, and will use the accrual basis of accounting. The economic resources measurement focus means that all resources of the entity will be accounted for and reported in the government-wide financial statements, including infrastructure. The accrual basis of accounting requires revenues of the entity to be reported when they are earned, regardless of whether they are currently available to finance the costs of the current period. Expenses are required to be recorded and reported when the liability arises.

The fund financial statements will continue to use the measurement focus and basis of accounting that we currently use. Governmental funds (i.e. general fund, special revenue funds, debt service fund, and capital projects funds) will be reported using the “current financial resources” measurement focus and modified accrual basis of accounting. But proprietary funds will continue to use the economic resources measurement focus and accrual basis of accounting that they have previously used.

Financial statements prepared using the current financial resources measurement focus include only current assets and liabilities, and report expenditures for long-term assets and debt as expense of the current period. The modified accrual basis of accounting recognizes revenue only if that revenue is available to finance the activities of the current period. Most expenses are recognized when incurred, with some notable exceptions (interest on long-term debt, etc.).

The Governmental Accounting Standards Board feel that it is important for people to understand that we are not reporting two different sets of financial statements, but that we are reporting the same financial information from two perspectives. Therefore, financial reporting will show the relationship between the two perspectives.

The MD&A (Management’s Discussion and Analysis) will have a section that will describe how the two perspectives relate to each other. Also, the fund

financial statements will include a reconciliation between the fund financial statements and the government-wide statements, again showing how they are related.

There are four major areas where the government-wide statements and the governmental fund financial statements differ in perspective, resulting in reconciling items.

First, governmental funds report capital outlays as a current expenditure. However, in the statement of activities of the government-wide statements, the cost of those assets is allocated over their estimated useful lives as depreciation expense. Therefore, a reconciling item showing the difference between capital outlays and depreciation in the current period.

Second, revenues that have been earned but are not available to pay liabilities of the current period are not reported in the governmental fund financial statements. However, revenues are reported when earned in the government-wide financial statements, resulting in a reconciling items showing the difference (i.e., revenues earned but “unavailable”).

Bond proceeds are reported as revenues in governmental fund financial statements. But under the accrual basis of accounting, the proceeds are reported as a long-term liability. Therefore, a reconciling item will be reported showing the difference in the two perspectives. Similarly, repayments of long-term debt principal are reported as expenditures in governmental fund financial statements, but as a reduction of debt in government-wide statements.

Finally, Some expenses reported in the government-wide statement of activities do not require the use of current financial resources (i.e., accrued interest on long-term debt) and therefore are not reported as expenditures in governmental funds.

There are other, usually less significant, differences between the two perspectives that will result in reconciling items. These include gain on the sale of fixed assets and net revenue or expense of internal service funds.

In our next **Newsletter** we will discuss reporting of infrastructure and what local governments should be doing now to prepare for the additional reporting that will be required.

# Announcing... *the 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 also be providing an update on property tax issues.

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

	Thursday, March 30, 9:00 - 12:00 <b>Vernal</b> - County Comm. Chambers 147 E. Main	Wednesday, April 5, 9:00 - 12:00 <b>Richfield</b> - County Court House Basement Auditorium
Monday, March 27, 9:00 - 12:00 <b>South Ogden</b> - City Council Chambers 560 39th Street	Monday, April 3, 9:00 - 12:00 <b>Salt Lake City</b> - State Office Building Auditorium, Capitol Hill	Friday, April 7, 9:00 - 12:00 <b>Logan</b> , Co. Council Exec. Chambers * 120 North 100 West * New Location
Wednesday, March 29, 9:00 - 12:00 <b>Price</b> - Room 207, Price City Offices 185 East Main Street	Tuesday, April 4, 9:00 - 12:00 <b>St. George</b> - Washington Co. Comm. Chambers - 197 E. Tabernacle	Monday, April 10, 9:00 - 12:00 <b>Orem</b> , City Council Chambers 56 North State Street