OFFICE OF THE
UTAH STATE AUDITOR

Auditor Alert 2016-06

Date: October 7, 2016
Subject: Sixth Allocation of B&C Road Fund Money

Background

During the 2015 General Session, HB 362 changed the allocation of B&C road funds effective May, 2015. HB 362 also increased the motor fuel tax beginning on January 1, 2016. During the 2016 General Session, the Legislature modified HB 362 with HB 60 which was retroactive to January 1, 2016. During fiscal year 2016, local governments received B&C distributions from UDOT under an HB 362 formula and under a HB 60 formula. After these funds were allocated from July 1, 2015 through April 30, 2016, a determination was made that the HB 60 allocation did not meet legislative intent. Therefore, a decision was made to hold the sixth distribution of these funds until a resolution could be determined. It is anticipated that a special session of the Legislature will be called during November and that the Legislature will modify the distribution retroactively beginning with the sixth distribution of 2016 and impacting all distributions in fiscal year 2017 and beyond.

Question

The Office of the State Auditor (Office) has been asked whether the sixth allocation of these funds should be accrued in municipal financial statements for fiscal year 2016. The following are references to applicable guidance.

Applicable Accounting Standards

GASB 36 paragraph 2 states:

> *On the other hand, a government may share its own derived tax revenues or imposed nonexchange revenues with other governments. For example, a state (provider) may share a portion of the revenues resulting from its sales tax with local governments. Both the provider and recipient governments should comply with the requirements of this Statement for voluntary or government-mandated nonexchange transactions, as appropriate. Because some recipient governments receive these shared revenues through a* ***continuing appropriation****,* they may rely on periodic notification by the provider government of the accrual-basis information necessary for compliance. If notification by the provider government is not available in a timely manner, recipient governments should use a* ***reasonable estimate*** *of the amount to be accrued.*
>
> ** As used in this Statement, continuing appropriation refers to an appropriation that, once established, is automatically renewed without further legislative action, period after period, until altered or revoked.*

The Office believes that B&C revenue meets the criteria of a "continuing appropriation" and can be reasonably estimated. The estimate should be the municipality's best approximation of anticipated revenue. Therefore municipalities should record a receivable for the anticipated revenue.

GASB 65 paragraph 30 states:

> *When an asset is recorded in governmental fund financial statements but the revenue is not available, the government should report a deferred inflow of resources until such time as the revenue becomes available.*

A strict application of this accounting standard would conclude that because the sixth allocation of B&C revenue will not be received in time to pay liabilities of the current period, it does not meet the "available" criteria, and the receivable should be offset by a "deferred inflow." Under this application, the accrual would only affect the governmental funds balance sheet. However, the Governmental Accounting, Auditing, and Financial Reporting (GAAFR) "Blue Book" does identify an exception allowed by NCGA Interpretation 3 paragraph 8 in unusual circumstances.

GAAFR (Blue Book) page 125-126 states:

> *In highly unusual circumstances, the strict application of a government's normal availability period for a given revenue source might seriously distort revenue trends from one year to the next. Assume, for example, that a county routinely receives its portion of state-collected sales taxes for the last quarter of the fiscal period within its 60-day availability period, but that this particular year there was an administrative problem at the state level that delayed payments slightly beyond the 60-day cutoff. In such* ***unusual circumstances****, the government can recognize revenue based on its normal collection patterns, even if it means recognizing property tax revenues that become collectible more than 60 days beyond the end of the period.**
>
> **If because of unusual circumstances, the facts justify a period greater than 60 days, the governmental unit should disclose the period being used and the facts that justify it" (NCGA Interpretation 3, Revenue Recognition – Property Taxes, paragraph 8)*

The Office believes that the decision to hold and modify the sixth B&C distribution is an unusual circumstance and that strictly applying normal accounting guidance distorts revenue trends from one year to the next. Therefore, a municipality could choose to record the sixth distribution as revenue rather than a deferred inflow.

Conclusion

The Office recommends accruing the sixth B&C distribution as follows:

	DR	CR
Account Receivable	xx	
B&C Revenue		xx

The municipality should disclose the facts justifying a period greater than 60 days and the period used.

Materiality

If the amount of the 6th distribution is not considered material to the financial statements, the provisions noted in the GASB Statements above do not need to be applied.