Michigan Committee on Governmental Accounting and Auditing Statement No. 9

Issued by

State Treasurer
State of Michigan
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REVENUE RECOGNITION OF PROPERTY TAXES

1. This statement is intended to provide guidance to the auditor in application of the National Council on Governmental Accounting Interpretation 3 which states: "Varying interpretations of Statement 1 modified accrual basis property tax revenue recognition provisions are impairing the comparability of governmental GAAP financial statements. Similar local governments in the same state, which have the same fiscal year, interpret Statement 1 provisions differently and, therefore, account for the same tax levy differently." GASB 33 which states in part, "Accounting and financial reporting standards using the accrual basis of accounting generally have focused on exchange and exchange-like transactions. Little guidance exists on accrual-basis accounting for the nonexchange transactions of governments. Also, existing accounting and financial reporting standards for nonexchange transactions using the modified accrual basis of accounting are limited in scope and require clarification." However as GASB 33, paragraph 29, 30b states, "This statement does not change the requirements of National Council on Governmental Accounting (NCGA) Statement 1, *Governmental Accounting and Financial Reporting Principles*, as amended, and subsequent NCGA and GASB pronouncements for revenue recognition using the modified accrual basis of accounting...Therefore, revenues from nonexchange transactions should be recognized "in the accounting period when they become available and measurable...*Imposed nonexchange revenues--property taxes.* Recipients should recognize revenues in accordance with NCGA Interpretation 3, as amended."

2. GASB Section P70--Provisions

   a) Paragraph 103 states:

   103) When a property tax assessment is made, it is to finance the budget of a particular period, and the revenue produced from any property tax assessment should be recognized in the period for which it was levied provided the "available" criteria of Interpretation 5 are met as shown in the paragraph below.

   > "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. 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."

   NOTE: These provisions are contained in GASB Codification Section P70, as amended by GASB Interpretation 5.

3. Local Unit Fiscal and Budget Years

The following are the fiscal and budget years for local units (as defined in PA 2 of 1968, as amended, for budgeting purposes).

a) Counties--January 1 through December 31 or October 1 through September 30 (statutory requirement)*

b) Charter Townships--January 1 through December 31 or April 1 through March 31 (statutory requirement)

c) General Law Townships--April 1 through March 31 or July 1 through June 30 (statutory requirements)*

d) General Law Village--March 1 through February 28 or 29 (statutory requirement)

e) Home Rule Village--See charter or local ordinance provisions

f) Home Rule Cities (including Fifth Class Cities)--See charter or local ordinance provisions Michigan Committee on Governmental Accounting and Auditing Statement No. 3

g) Fourth Class Cities--See local ordinance provisions. (On January 1, 1980, all Fourth Class Cities were to become Home Rule Cities. They are to adopt a charter. If no charter is adopted, the Fourth Class Cities Act will act as a charter).

h) Public School Districts--July 1 through June 30*

*Units which share in the 15 mill allocation or fixed millage provisions as limited by MCL 211.204 and MCL 211.211.

4. Tax Levy Dates and Applicable Budget Years

a) Local units which share in the 15 mill allocation or fixed millage provisions.

   Tax levy date is December 1 of each year.

   Applicable Budget Years:

   1. County--the year beginning immediately subsequent to levy date. State statutes provide that the county board of commissioners adopt a budget for the ensuing year in the October session. Example: tax levy date of 12/1/01--the tax levy is for the county year January 1, 2002 through December 31, 2002.

   2. Public School Districts--the year beginning just previously to levy date. Example: tax levy date was 12/1/01--the tax levy is for the year July 1, 2001 through June 30 2002. The fiscal and budget year are five months underway before levy date.

3. General Law Townships--the year beginning the prior April 1 or July 1. Example: tax levy date was 12/1/01--the tax levy is for the year April 1, 2001, or July 1, 2001 through March 31, 2002 or June 30, 2002. (see explanation and analysis)

b) Charter Townships 12/31 Fiscal Year End--similar to counties, the year beginning immediately subsequent to tax levy date of December 1. State statutes provide that the township board adopt a budget for the ensuing year by November of the current year. Example: tax levy date is 12/1/01--the levy is for the year January 1, 2002 through December 31, 2002. Charter townships 3/31 fiscal year end--same as a) 3.

c) General Law Villages--see MCL 69.15 for guidance to determine tax levy date. The village may also have an ordinance provision defining the financial year to which the tax levy is applicable. Refer also to MCL 211.209.

d) Home Rule Cities (Including Fifth Class Cities), Home Rule Villages, Cities of Fourth Class--see charter or ordinance provision. Also, refer to MCL 211.209 for guidance to determine which year the tax levy is applicable.

5. Delinquent Taxes (for Counties)

When the county purchases the delinquent taxes of a local unit, those delinquent taxes would be recognized in the corresponding fiscal year that the current tax is recognized as revenue. If the 60 day test is not met (as illustrated in section 2 above), the period being used and related facts would be disclosed in the notes to the financial statements.

If the county does not purchase the delinquent taxes, an estimate using the 60 day test would be made of the collections in order to determine the amount of revenue to recognize. The remainder of the delinquent taxes would be recorded as deferred revenue, if material. If, because of unusual circumstances, the facts justify a period greater than 60 days, the county should disclose the period being used and the facts that justify it.

In the case where in one year the county purchases the delinquent taxes and in the next year the county does not purchase them, the recognition of revenue will not be consistent. However, this should not affect the auditor's opinion as it relates to consistency, but would require extensive explanation in the notes to the financial statements.

6. Explanation and Analysis

In Michigan, the period which a budget is to finance can be calculated based upon MCL 211.209 which states:

> "Each local unit as defined in this act shall prepare each year a budget containing an itemized statement of its proposed expenditures and estimated revenues, covering all its departments and activities. Such budget shall cover that fiscal year of the local unit, the expenditures of which year are to be met wholly or partly from the next tax levy."

Also, MCL Section 211.210 states:

> "Sec.10. Such local unit shall file its budget and statements provided for in the preceding section with the board on or before the third Monday in April of each year."

Applying this section to counties, general law townships, and public school districts (units which share in the 15 mill limitation or fixed millage), we find that the applicable budget years can be computed as follows:

Local Unit	Tax Levy Date	Budget Year
12/31 Counties	12/1/01	January 1, 2002 through December 31, 2002
09/30 Counties	12/1/01	October 1, 2001 through September 30, 2002
03/31 Townships	12/1/01	April 1, 2001 through March 31, 2002
06/30 Townships	12/1/01	July 1, 2001 through June 30, 2002
12/31 Townships	12/1/01	January 1, 2002 through December 31, 2002
School Districts	12/1/01	July 1, 2001 through June 30, 2002

In these above instances, it will be noted that the next tax levy date set by law for all units is 12/1/01. The statutes clearly provide that for counties and charter townships the tax levy is for the following year. In the instance of general law townships, the Attorney General has held that the budget adopted by the township board is for the year already in process (See AG Opinion No. 4392, March 23, 1965).

In the instance of both general law townships and public school districts, the next tax levy date is 12/1/01 after filing the proposed budget under MCL 211.209.

Some cities also collect school taxes along with the city taxes. Example: In the City of Detroit, the tax levy date will be the same as the city's levy date.

Q. "If the school districts are already five months into their fiscal year and townships already five to eight months into their fiscal year on December 1, which is the tax levy date? How can we say that property taxes collected can actually be used to finance a fiscal year up to 2/3 already completed? Aren't these tax collections really going to be used to finance the succeeding year's expenditures?"

A. 1. Taxes for schools and townships levied on 12/1 meet the test of paragraph 103 of GASB Codification Section P70, as amended by GASB interpretation #5, in that the taxes are collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

2. Townships and school districts may borrow on tax anticipation notes according to MCL 141.2401. Such borrowing can provide the necessary cash flow along with beginning of the year cash to finance the current year operations.

7. If application of this statement causes a fund deficit to result, appropriate disclosure and notification shall be made to the State Treasurer or Department of Education. In addition, if

application of this statement causes either a deficit fund balance or a material increase in fund balance, appropriate disclosure should be made in the notes to the financial statements.

8. GASB 34 Implications

If property taxes are not to be collected until after the 60 day deadline, they will not be considered "available" in the governmental funds and will not be reported as revenues. However, these same property taxes will be considered "earned" and, therefore, reported as revenues in the Statement of Activities.

9. Financial Statement Note Disclosure Requirements

Tax calendar, including lien date, levy date, due date, collection dates and other relevant information such as taxable value and the millage rates levied.

ILLUSTRATIONS

Taxes Receivable--Current OR Property Taxes

The Local Governmental Unit property tax is levied on each December 1st on the taxable valuation of property (as defined by State statutes) located in the Local Governmental Unit as of the preceding December 31st.

Although the Local Governmental Unit 2001 ad valorem tax is levied and collectible on December 1, 2001, it is the Local Governmental Unit's policy to recognize revenue from the current tax levy in the subsequent year OR the current year when the proceeds of this levy are budgeted and made “available” for the financing of operations. “Available” means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2001 taxable valuation of the Local Governmental Unit totaled $XX.X million, on which ad valorem taxes levied consisted of X.XXXX mills for the Local Governmental Unit operating purposes, X.XXXX mills for ambulance services, X.XXXX mills for debt service, raising $XX.X million for operating, $X.X million for ambulance services, and $X.X million for debt service. These amounts are recognized in the respective General, Special Revenue and Debt Service Fund financial statements as taxes receivable--current or as tax revenue.

Taxes Receivable--Delinquent

The taxes receivable delinquent in the amount of $XXX,XXX recorded in the Delinquent Tax Revolving Fund consists of uncollected real property taxes levied prior to 2001. The delinquent property taxes receivable may be summarized as follows:

2002	$ XX,XXX
2003	XX,XXX
2004	XX,XXX
Total	$XXX,XXX

This statement was adopted in May 2001 by the members of the Michigan Committee on Governmental Accounting and Auditing.

Richard L. Baldermann, Chairperson
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