

CITIES AND TOWNS BULLETIN

AND UNIFORM COMPLIANCE GUIDELINES ISSUED BY STATE BOARD OF ACCOUNTS

March 2014

JUNE TRAINING SCHOOL

This year's June Training School will be held in French Lick as part of the Indiana League of Municipal Clerks and Treasurers' Annual Conference during the week of June 8 through June 12, 2014.

The Conference and School will be held at the Event Center of the French Lick Springs Hotel.

The State Board of Accounts will be conducting two (2) days of training (June 10 and 11) at the Conference which will be State-called meeting days.

Please mark these dates on your calendar. An explanatory letter along with a tentative agenda will be sent prior to the meeting.

PURCHASES OF COMPUTER HARDWARE AND SOFTWARE

The purchase of a computer system (hardware and software) is subject to the Public Purchases Law (IC 5-22); however, IC 5-22-10-7 allows a purchasing agent to make a special purchase of data processing contracts or license agreements for:

1. software programs; or
2. supplies or services, when only one (1) source meets the using agency's reasonable requirements.

If it is determined that a special purchase of data processing contracts or license agreements for software programs or supplies or services is to be made, the purchasing agent may make a purchase without soliciting bids or proposals. However, the special purchase must be made with competition as is practicable under the circumstances. (IC 5-22-10-2)

STATE AND FEDERAL MILEAGE RATES

It is our understanding that the Federal mileage rate was lowered to 56 cents per mile, effective January 1, 2014. The State mileage rate remains at 44 cents per mile.

SPECIAL FUEL TAXES

Please note the Indiana Department of Revenue has issued guidelines concerning the taxation, licensing, and reporting on special fuels. Inquiries may be directed to the Department of Revenue, Fuel Tax Section, at (317) 615-2630.

BOND ISSUES - ACCOUNTING REQUIREMENTS

There are many laws authorizing bonds to be issued for construction of or improvements to city or town buildings and structures, as well as for other purposes. When bonds are issued there are specific statutory requirements to be met in which city or town officials should be guided by the advice of bond counsel, with the proceeds to be accounted for in the manner provided in the bond ordinance or in the applicable law under which the bonds are issued.

There are, however, certain uniform requirements in accounting for such funds which must be observed. These include:

1. Principal of Bond Issue – Only the principal of the proceeds of the bond issue may be receipted to a construction fund or to such other fund as designated in the applicable ordinance or law under which the bonds were issued.
2. Premium and Accrued Interest – The premium and accrued interest received from the sale of the bonds must be receipted into a bond and interest redemption fund or such other fund designated for the retirement of the bonds and interest.
3. Appropriations – Where the proceeds (principal) of the bonds are required to be appropriated, such as general obligation bonds of a city or town for any purpose, not more than the appropriation may be expended, regardless of the cash available in the fund for such purpose. An appropriation ledger sheet should be set up in back of the fund (cash) account in all instances where appropriations are required. Appropriations made from the proceeds of a bond issue do not lapse at the end of the year but remain in force, and the balance is carried forward each year, until the purpose for which the appropriations were made has been accomplished or abandoned. [IC 5-1-2-1]
4. Investments – The proceeds of a bond issue may be invested in the same manner as other city and town funds. [IC 5-13-9-1] The interest thereon shall be receipted to the general fund unless otherwise provided in the bond ordinance. The interest may be applied to the appropriate bond and interest or sinking fund. [IC 5-13-9-6] The interest may not, however, be expended without appropriation.
5. Surplus Bond Proceeds – Any balance remaining after the purpose for which the bonds were issued has been accomplished or abandoned shall, by an order of the council entered of record, be transferred to the bond and interest redemption fund.

INVENTORIES OF CAPITAL ASSETS

Every city or town should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded in the Capital Assets Ledger, City and Town Form Number 211, segregated by departments of the city or town, i.e., fire department, police department, park department, street department, sanitation department, etc. Water, electric, gas, and sewage utilities are to be inventoried separately showing capital assets belonging to each utility. A complete inventory should be taken at least once a year for good internal control and for verifying account balances carried in the accounting records.

Capitalization Policy

The governing body should establish a capitalization policy that sets a dollar amount as a threshold to be used in determining which items will be recorded.

Land

The records of each city and town should reflect land owned, its location, its acquisition date and cost (purchase price).

Infrastructure

A capital asset account for the cost of infrastructure should reflect the location of each road, bridge, tunnel, drainage system, water, wastewater or stormwater system, dam, or lighting system.

Buildings

A capital asset account for buildings should reflect the location of each building and the cost value (being the purchase or construction cost) and, if improvements are made to the building, the cost of such improvements would be included. If a building is acquired by gift, the account would reflect its appraised value at the time of acquisition.

Improvement Other Than Buildings

A capital asset account should reflect the acquisition value of permanent improvements, other than buildings, which have been added to land. Examples of such improvements are fences, retaining walls, parking lots, and most landscaping. The improvements would be valued at the purchase or construction cost.

Equipment

Tangible property of a permanent nature, other than land, buildings and improvements, should be inventoried. Examples include machinery, trucks, cars, furniture, typewriters, adding machines, calculators, bookkeeping machines, data processing equipment, desks, safes, cabinets, etc. The value of such items should be carried in the inventory at the purchase cost.

Construction Work In Progress

Where construction work has not been completed in the current calendar year, the cost of the project should be carried as "construction work in progress." When the project is completed, it will be placed on the inventory applicable to the assigned asset accounts.

ESTABLISHING THE ESTIMATED COST OF CAPITAL ASSETS

When it is not possible to determine the historical cost of capital assets owned by a governmental unit, the following procedure should be followed.

Develop an inventory of all capital assets which are significant for which records of the historical costs are not available. Obtain an estimate of the replacement costs of these assets. Through inquiry determine the year or approximate year of acquisition. Then multiply the estimated replacement cost by the factor for the year of acquisition from the Table of Cost Indexes. The resulting amount will be the estimated cost of the asset.

In some cases estimated replacement cost can be obtained from insurance policies; however, if estimated replacement costs are not available from insurance policies, you should obtain or make an estimate of the replacement costs.

If the replacement cost is estimated to be \$76,000.00 and the asset was constructed about 1926, then the estimated cost of the asset should be reported as \$6,080.00.

$$\$76,000.00 \times .08 = \$6,080.00$$

TABLE OF COST INDEXES
1913 to 2013

| <u>Year</u> | <u>Index</u> | <u>Year</u> | <u>Index</u> | <u>Year</u> | <u>Index</u> | <u>Year</u> | <u>Index</u> |
|-------------|--------------|-------------|--------------|-------------|--------------|-------------|--------------|
| 2013 | 1.00 | 1985 | .46 | 1961 | .13 | 1937 | .06 |
| 2012 | .99 | 1984 | .45 | 1960 | .13 | 1936 | .06 |
| 2011 | .97 | 1983 | .43 | 1959 | .12 | 1935 | .06 |
| 2010 | .94 | 1982 | .41 | 1958 | .12 | 1934 | .06 |
| 2009 | .92 | 1981 | .39 | 1957 | .12 | 1933 | .06 |
| 2008 | .92 | 1980 | .35 | 1956 | .12 | 1932 | .06 |
| 2007 | .89 | 1979 | .31 | 1955 | .12 | 1931 | .07 |
| 2006 | .87 | 1978 | .28 | 1954 | .12 | 1930 | .07 |
| 2005 | .84 | 1977 | .26 | 1953 | .11 | 1929 | .07 |
| 2004 | .81 | 1976 | .24 | 1952 | .11 | 1928 | .07 |
| 2003 | .79 | 1975 | .23 | 1951 | .11 | 1927 | .07 |
| 2002 | .77 | 1974 | .21 | 1950 | .10 | 1926 | .08 |
| 2001 | .76 | 1973 | .19 | 1949 | .10 | 1925 | .08 |
| 2000 | .74 | 1972 | .18 | 1948 | .10 | 1924 | .07 |
| 1999 | .72 | 1971 | .17 | 1947 | .10 | 1923 | .07 |
| 1998 | .70 | 1970 | .17 | 1946 | .08 | 1922 | .07 |
| 1997 | .69 | 1969 | .16 | 1945 | .08 | 1921 | .08 |
| 1996 | .67 | 1968 | .15 | 1944 | .08 | 1920 | .09 |
| 1995 | .65 | 1967 | .14 | 1943 | .07 | 1919 | .07 |
| 1994 | .64 | 1966 | .14 | 1942 | .07 | 1918 | .07 |
| 1993 | .62 | 1965 | .14 | 1941 | .06 | 1917 | .05 |
| 1992 | .62 | 1964 | .13 | 1940 | .06 | 1916 | .05 |
| 1991 | .58 | 1963 | .13 | 1939 | .06 | 1915 | .04 |
| 1990 | .56 | 1962 | .13 | 1938 | .07 | 1914 | .04 |
| 1989 | .53 | | | | | 1913 | .04 |
| 1988 | .51 | | | | | | |
| 1987 | .49 | | | | | | |
| 1986 | .47 | | | | | | |

MOTOR VEHICLE EXCISE SURTAX AND WHEEL TAX

In accordance with the provisions of IC 6-3.5-4 and IC 6-3.5-5, the county council of each county may, by ordinance, impose a County Motor Vehicle Excise Surtax and a County Wheel Tax.

Collection of the Tax

Both the county motor vehicle excise surtax and the county wheel tax will be collected by the Bureau of Motor Vehicles or its branch offices and transmitted electronically to the county treasurer on or before the tenth day of each month along with the auto license excise tax.

Allocation and Distribution of the Tax

Before the twentieth day of each month, the county auditor shall allocate the money deposited in both the County Surtax Fund and the County Wheel Tax Fund among the county and cities and towns in the county.

The county auditor shall allocate the money to counties, cities, and towns under IC 8-14-2-4(c)(1) through IC 8-14-2-4(c)(3) as follows:

1. In counties having a population of more than 50,000, 60% of the monies shall be distributed on the basis of population of the city or town as a percentage of the total population of the county and 40% distributed on the basis of the ratio of city and town street mileage to county road mileage.
2. In counties having a population of 50,000 or less, 20% of the monies shall be distributed on the basis of population of the city or town as a percentage of the total population of the county and 80% distributed on the basis of the ratio of city and town street mileage to county road mileage.
3. For the purposes of allocating funds as provided in this section, towns which become incorporated as a town between the effective dates of decennial censuses shall be eligible for allocations upon the effectiveness of a corrected population count for the town under IC 1-1-3.5.

Use of Money by Cities and Towns

Unless the wheel tax is transferred to a multiple county infrastructure authority, the distributions of surtax and wheel tax to cities and towns should be receipted to the Motor Vehicle Highway Fund (Street Fund) to be used to construct, reconstruct, repair, or maintain streets and roads under their jurisdiction. (IC 6-3.5-4-13 and IC 6-3.5-5-15)

PROMOTION OF CITY AND TOWN BUSINESS

IC 36-7-2-7 allows cities and towns to promote economic development and tourism. Such statute replaced a prior law which authorized cities and towns to budget and appropriate funds from the general fund to pay the expense of, or to reimburse city or town officials as the case may be, for expenses incurred in promoting the best interest of the city or town. Accordingly, a Home Rule ordinance needs to be adopted in accordance with IC 36-1-3 in order to enable a city or town to pay for such expenses. Additionally, an appropriation for such expenses must also be obtained.

In an effort to assist cities and towns that have not passed an enabling ordinance but who wish to establish the promotion of business ordinance, we are repeating wording contained in the old statute. Many municipalities have used similar wording in their enabling ordinance.

“City and town councils are authorized to budget and appropriate funds from the general fund of the city, or town, to pay the expense of or to reimburse city officials or town officials, as the case may be, for expenses incurred in promoting the best interest of the city or town. Such expenses may include, but not necessarily be limited to, rental of meeting places, meals, decorations, memorabilia, awards, expenses incurred in promoting industrial, commercial, and residential development, expenses incurred in developing relations with other units of government and any other expenses of a civic or governmental nature deemed by the mayor or the town council to be in the best interest of the city or town.”

This is furnished only for your information. Each city and town should establish, by ordinance, the parameters for such appropriations and expenditures. Such ordinance should list the specific types of promotional expenses which can be paid from moneys appropriated for such purpose. Please note that we would take audit exception to excessive amounts expended for employee meals, awards, gifts, and similar expenses and amounts expended for items not listed in the ordinance.

COUNTY SLOT MACHINE WAGERING FEE FUND

Each city or town that receives tax revenue or shared tax revenue under IC 4-35-8.5 shall establish a separate county slot machine wagering fee fund where such revenue shall be deposited. Money in the fund may be used for any legal or corporate purpose of the city or town.

The fund shall be administered by the city or town's clerk-treasurer or controller and the expenses of administering the fund shall be paid from money in the fund. Money in the fund not currently needed to meet the obligations of the fund may be invested in the same manner as other public funds may be invested. Interest that accrues from these investments shall be deposited in the fund. Money in the fund at the end of a particular fiscal year does not revert to the unit's general fund. (IC 36-1-8-9.2)

APPROVAL OF ACCOUNTING FORMS AND SYSTEMS

The State Board of Accounts is charged by law with the responsibility of prescribing and installing a system of accounting and reporting which shall be uniform for every public office and every public account of the same class and contain written standards that an entity that is subject to audit must observe. The system must exhibit true accounts and detailed statements of funds collected, received, obligated and expended for or on account of the public for any and every purpose. It must show the receipt, use and disposition of all public property and the income, if any, derived from the property. It must show all sources of public income and the amounts due and received from each source. Finally it must show all receipts, vouchers, contracts, obligations, and other documents kept, or that may be required to be kept, to prove the validity of every transaction. [IC 5-11-1-2]

The system of accounting prescribed is made up of the uniform compliance guidelines and the prescribed forms. A prescribed form is one which is put into general use for all offices of the same class.

Computer hardware, software and application systems can now produce exact replicas of the forms prescribed by the State Board of Accounts. An exact replica of a prescribed form is a computerized form that incorporates all of the same information as the manual prescribed form. Prescribed form replication is the preferred approach from the State Board of Accounts' position. These exact replicas are the equivalent of the prescribed form and require no further action for the county to install the form within their accounting system.

Governments are required by law to use the forms prescribed by this department. However, if it is desirable to use a form other than the prescribed manual form, that is not an exact replica; the new form must be approved by State Board of Accounts.

All forms previously approved by sending copies to State Board of Accounts and receiving a form approval letter are approved with the conditions contained with the letter. All forms previously approved by the adoption of a resolution as allowed by the Cities and Towns Bulletin article entitled Form Approval Process-Computerized Systems, published in the March 2006 Bulletin, pages 2 and 3, are also considered approved.

After April 1, 2014, if a government implements, consistent with the provisions of Indiana Code and Uniform Compliance Guidelines, an automated accounting system that is to be considered for approval, the responsible official is not required to maintain the prescribed forms replaced by the automated system while awaiting the approval. New forms must be in place during at least one (1) State Board of Accounts audit and must not be an element of an audit finding or audit result and comment that is responsible or partially responsible for an exception found during an audit to be considered approved. The government is responsible for placing on new forms the year of installation in the upper right corner. This reference should be similar to "Installed by the City/Town of _____, (Year)." The city or town must maintain and present for audit a log of forms installed after April 1, 2014 with the year installed for all forms that replace forms prescribed by State Board of Accounts.

The government agrees to comply with the following conditions, if applicable, for any new forms installed.

1. The forms and system installed are subject to review and/or recommendations during audits of the government to ensure compliance with current statutes and uniform compliance guidelines.
2. The government shall continue to maintain all prescribed forms not otherwise covered by an approval.

APPROVAL OF ACCOUNTING FORMS AND SYSTEMS (Continued)

3. All transactions that occur in the accounting system must be recorded and accessible upon proper request. Transactions can be maintained electronically, with proper backups, microfilmed, or printed on hardcopy. These transactions include, but are not limited to, all input transactions, transactions that generate receipts, transactions that generate checks, master file updates, and all transactions that affect the ledgers in any way. The system must be designed so that changes to a transaction file cannot occur without being processed through an application.
4. The ability must not exist to change data after it is posted. If an error is discovered after the entry has been posted, then a separate correcting entry must be made. Both the correcting entry and the original entry must be maintained.
5. If the unit owns the source code, sufficient controls must exist to prevent unauthorized modification. If the unit does not own the source code, the vendor shall provide representatives of the State Board of Accounts with access to all computer source codes for the system upon request for audit purposes. In addition, the vendor shall provide representatives of the State Board of Accounts with a document describing the operating system used, the language that the source code is written in, the name of the compiler used, and the structure of the data files including data file names, data file descriptions, field names, and field descriptions for the system.
6. Any receipts, checks, purchase orders, or other forms that require numbering shall be either pre-numbered by an outside printing supplier or numbered by the units computer system with sufficient controls installed in the system to prevent unauthorized generation of the form or duplication of numbers.
7. All receipts must be either in duplicate or recorded in a prescribed or approved register of receipts.
8. All checks must be either in duplicate or recorded in a register of checks generated by the computer.
9. Recap sheets for each deposit for deposit advices, if applicable, will be maintained indicating direct deposits. Individual wage assignment agreements will be kept on file to support direct deposit.
10. "Installed by the City/Town of _____, (Year)" shall be printed, in the upper right corner, on each approved form furnished by a printing supplier and, when practical, on those printed from accounting systems at the unit. Upon the installation of a new form the form will be entered on a log for this purpose with the date of installation; and the name and number of the prescribed form replaced. The log must be available for audit.
11. The government officials are responsible to ensure that forms and accounting systems installed comply with the uniform compliance guidelines for information technology services published in the Cities and Towns Bulletin and accounting manuals. This includes ensuring that customization of the system done by the vendor for implementation at the government is done in such a manner that the system remains compliant.
12. In the event a change is required due to the passage of a State or Federal law, the government agrees to implement the change in a timely manner.



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Changes to GASB Pension Reporting to Impact Employers in 2015

Significant pension reporting changes are coming from the Governmental Accounting Standards Board (GASB). These will affect employers participating in retirement plans administered by the Indiana Public Retirement System (INPRS). GASB Statement Number 68, Accounting and Financial Reporting for Pensions, was issued in June, 2012 and is effective for fiscal years beginning after June 15, 2014. This statement is an amendment to GASB Statement Number 27, Accounting for Pensions by State and Local Governmental Employers and GASB Statement Number 50, Pension Disclosures.

The new standards in GASB Statement Number 68 set different methods for pension funding and financial reporting. Historically, there has been a close relationship between how governments fund pensions and how they account and report information. However, the new guidance makes a clear shift from a funding-based approach to an accounting-based approach. This shift was designed to improve pension information and increase the transparency, consistency, and comparability of pension information across governments.

For GAAP basis employers, GASB Statement Number 68 will have a significant impact on financial statements. It requires GAAP basis employers to report their net pension liability (unfunded liability) in the financial statements. Calculation of pension expense will change, and deferred outflows / inflows of resources related to pensions will also need to be reflected in the financials. There will be substantial financial statement note disclosures and additional required supplementary information related to employer's participation in retirement plans administered by INPRS.

GASB Statement Number 68 doesn't apply to non-GAAP basis employers. The Indiana State Board of Accounts will provide direction with what will be required to be included with your annual financial statements.

Employers are encouraged to begin preparations for these changes. You can do so by discussing possible implications of these changes with preparers of your financial statements. Also, because GAAP basis employers' financial statements will be required to show their proportionate share of net pension liability, if applicable you may want to review debt covenants for possible violations resulting from these accounting changes.

INPRS plans to provide individual employers with their required financial reporting information and is currently analyzing the proposed changes. In early 2014, the GASB plans to issue an Implementation Guide for GASB Statement Number 68. The Implementation Guide and or the Statement may be downloaded at no charge or purchased in a hard copy format at the GASB's website www.gasb.org. After the Implementation Guide has been issued, the INPRS and SBoA plan to have additional communications with you regarding the implementation of GASB Statement Number 68.

If you have any questions, please contact Sherry Parton with the Indiana State Board of Accounts at sparton@sboa.in.gov or (317) 232-2525.

COMPENSATION OF OFFICERS AND EMPLOYEES

CITY OFFICERS AND EMPLOYEES

ELECTED CITY OFFICIALS

IC 36-4-7-2 states:

“(a) As used in this section, “compensation” means the total of all money paid to an elected city officer for performing duties as a city officer, regardless of the source of funds from which the money was paid.”

“(b) The city legislative body shall, by ordinance, fix the annual compensation of all elected city officers.”

“(c) The compensation of an elected city officer may not be changed in the year for which it is fixed, nor may it be reduced below the amount fixed for the previous year.”

APPOINTIVE OFFICERS, DEPUTIES, AND OTHER EMPLOYEES (Except Police Officers and Firefighters)

IC 36-4-7-3 states:

“(a) This section does not apply to compensation paid by the city to members of its police and fire departments.

(b) Subject to the approval of the city legislative body, the city executive shall fix the compensation of each appointive officer, deputy, and other employee of the city. The legislative body may reduce but may not increase any compensation fixed by the executive. Compensation must be fixed under this section not later than November 1 of each year for the ensuing budget year.

(c) Compensation fixed under this section may be increased or decreased by the executive during the budget year for which it is fixed.

(d) Notwithstanding subsection (b), the city clerk may, with the approval of legislative body, fix the salaries of deputies and employees appointed under IC 36-4-11-4”

COMPENSATION OF OFFICERS AND EMPLOYEES (Continued)

CITY OFFICERS AND EMPLOYEES – (Continued)

ADDITIONAL COMPENSATION FROM UTILITIES OR FUNCTIONS

IC 36-4-7-4 states:

“(a) Subject to the approval of the city legislative body, the city executive may provide that city officers and employees receive additional compensation for services that:

- (1) are performed for the city;
- (2) are not governmental in nature; and
- (3) are connected with the operation of a municipally owned utility or function.

(b) Subject to the approval of the executive and legislative body, the administrative agency operating the utility or function shall fix the amount of the additional compensation, which shall be paid from the revenues of the utility or function.”

It is our audit position that if the official records of the utility or function do not show the award of this additional compensation and the official records of the civil city do not show approval of the mayor and common council by ordinance or resolution as the statutes regulating the utility might provide, then there is no authority to make any payment.

POLICE OFFICERS AND FIREFIGHTERS

IC 36-8-3-3(d) states:

“The annual compensation of all members of the police and fire departments and other appointees shall be fixed by ordinance of the legislative body not later than November 1 of each year for the ensuing budget year. The ordinance may grade the members of the departments and regulate their pay bank rank as well as by length of service. If the legislative body fails to adopt an ordinance fixing the compensation of members of the police or fire department, the safety board may fix their compensation, subject to change by ordinance.”

SALARY SCHEDULES

IC 36-4-7-5 states:

“Salaries of city officers and employees shall be scheduled as provided in the budget classification prescribed by the State Board of Accounts.”

COMPENSATION OF OFFICERS AND EMPLOYEES (Continued)

TOWN OFFICERS AND EMPLOYEES

IC 36-5-3-2 states:

“(a) As used in this section, “compensation” means the total of all money paid to an elected town officer for performing duties a town officer, regardless of the source of the funds from which the money is paid.

(b) The Town legislative body shall, by ordinance, fix the compensation of its own members, the town clerk-treasurer, and the town marshal. The legislative body shall provide reasonable compensation for other town officers and employees.

(c) The compensation of an elected town official may not be changed in the year for which it is fixed, nor may it be reduced below the amount fixed for the previous year.

(d) The legislative body may provide that town officers and employees receive additional compensation for services that:

- (1) are performed for the town;
- (2) are not governmental in nature; and
- (3) are connected with the operation of a municipally owned utility or function.

Subject to the approval of the legislative body, the administrative agency operating the utility or function shall fix the amount of the additional compensation, which shall be paid from the revenues of the utility or function.”

Compensation of all town officers and employees shall be fixed by an ordinance of the town council and, for other than elected town officials, this compensation may be changed by other ordinance of the town council at any time. There is no limitation upon the amount fixed, only to the extent of available appropriations where tax funds are involved. (IC 36-5-3-2) .

The approval of the claim for increased compensation does not authorize the town clerk-treasurer to pay such increase unless it is specifically provided for by ordinance of the town council.

We recommend a salary ordinance of officials and employees for the next succeeding year be enacted by the town council annually and made a part of the minutes of the town council. This action is recommended to be completed prior to making out the annual budget for next year's costs of operations.