Accounting for Investments

SBOA December Monthly Meeting for Cities and Towns
2020

Internal Controls Objectives

Operations
Compliance
Reporting
IC 5-11-1-27 – Internal Controls

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

Deposit of Public Funds

IC 5-13-6

- Timely Deposit of Receipts
- State Examiner Directive 2020-1 during Public Health Emergency
- Approved Depositories
Definitions
IC 5-13-4

- **Investing Officer:** “The person having authority by law to invest for the political subdivision...” IC 5-13-4-16

- **Fiscal Body:** City or Town Council IC 5-13-4-6

- **Fiscal Officer:** Clerk Treasurer or Controller IC 5-13-4-7

- **Public Funds:** “all fees and funds of whatever kind or character coming into the possession of any public officer by virtue of that office...” IC 5-13-4-20

*Please see IC 5-13-4 for a complete list of important definitions!*

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Provisions not applicable to cities and towns IC 5-13-7 & 8

**Definition of “Political Subdivision”** excludes cities and towns for purposes of IC 5-13-7 and IC 5-13-9-8.

- Board of Finance
- Territorial Limits
- Number of Depositories
Designation of Depositories by Cities and Towns

- Council designates by ordinance the depositories that each city or town will use.
- Such depositories must be approved depositories.
- [https://www.in.gov/tos/deposit/2377.htm](https://www.in.gov/tos/deposit/2377.htm)

See IC 5-13-6-1(d) and the Cities and Towns Manual Chapter 7, page 14.

Council Responsibilities IC 5-13

- Designation of Depositories by ordinance - IC 5-13-6-1
  - *must be an approved depository*

- Investment Guidelines - IC 5-13-9-1

- Investment Policy - IC 5-13-9-5.7

Other authorizations needed from council if applicable:
- IC 5-13-9-5.3 - Interest Bearing Deposit Accounts
- IC 5-13-9-5 - Purchase of CDs from Depositories not Designated
- 5-13-9.3 - Investment of Proceeds from Certain Capital Assets
- 5-13-11 - Investment Cash Management System
City or Town Fiscal Officer Responsibilities

- **IC 36-4-10-4.5 Third Class Cities**: The fiscal officer shall manage the finances and accounts of the city and make investments of city money.

- **IC 36-4-10-5 Second Class Cities**: The fiscal officer shall manage the finances and accounts of the city and make investments of city money subject to the ordinances of the legislative body.

- **IC 36-5-6-6 Towns**: The clerk treasurer shall manage the finances and accounts of the town and make investments of town money.

- **IC 5-13-9-1 Cities and Towns**: "...in addition to any other statutory power to make investments, each fiscal officer of any political subdivision...under the guidelines established...by...the fiscal body...may invest any funds held by each in accordance with this chapter."

- **Investing Officer**: “The person having authority by law to invest for the political subdivision...” IC 5-13-4-16

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Investment of Public Funds IC 5-13-9-2

- **Specific Securities**
- **Safekeeping Receipts**
  - Custody by Duly Designated Depository
  - Or "Financial Institution" with combined capital and surplus of at least $10 Million
  - *Cities and Towns Bulletin: June, 2018*

- **IC 5-13-9-9**: Purchasing securities on margin or opening a securities margin account **prohibited**

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Investment of Public Funds
IC 5-13-9-2.5

Certain Money Market Mutual Funds
Investment must be made through a “depository”
Portfolio is limited to certain investments

Transaction Accounts - Defined in IC 5-13-4-24 & 7
- Designated Depository
- Rates and terms agreed to by investing officer

- Certificates of Deposit
  - Designated Depository
  - Obtain Quotes of each designated depository
    - Keep documentation – Memorandum of Quotes
  - Use Depository with highest rate or note reason for other depository on Memorandum of Quotes

- If designated Depository declines or interest rate too low – approved depository list – see requirements in IC 5-13-9-5
Investment of Public Funds
IC 5-13-9-5

Authorization by ordinance to purchase CDs from depository which has not been designated.

Authorization lasts for one year.

Obtain Quotes from at least 3 depositories:
- If 2 or more depositories have been designated, then must obtain quotes from 2 designated depositories.
- Keep documentation – Memorandum of Quotes.
- Use Depository with highest rate or note reason for other depository on Memorandum of Quotes.

Local Government Investment Pool

Trust Indiana

www.trustindiana.in.gov
Select Relationship Team
Cindy Barger
Other Investments of Public Funds
IC 5-13-9

- IC 5-13-9-3 Repurchase agreements; funds held by officer and available for investment; obligations held as collateral
- IC 5-13-9-3.3 Investment of funds in obligations issued, assumed, or guaranteed by International Bank for Reconstruction and Redevelopment or African Development Bank
- IC 5-13-9-3.5 Investment and reinvestment of funds; participation in loans; lending securities
- IC 5-13-9-5.3 Authorization to invest in interest bearing deposit accounts; conditions; exemption from security or pledging requirements

Terms of Investments & Investment Policy
IC 5-13-9-5.6 & IC 5-13-9-5.7

**Without Investment Policy** - Stated Final Maturity of not more than 2 years

**With Investment Policy** – Stated Final Maturity may be more than 2 years but not more than 5 years. Policy must

1. be in writing;
2. be adopted at a public meeting;
3. provide for the investment of public funds with the approval of the investing officer;
4. provide that the investments must be made in accordance with this article;
5. limit the total investments outstanding under this section to not more than twenty-five percent (25%) of the total portfolio of public funds invested by the political subdivision, including balances in transaction accounts; and
6. state a date on which the policy expires, which may not be more than four (4) years after the date on which the policy takes effect.
Contracts with Advisors
IC 5-13-9-5.7(f)

- An investing officer may contract with a federally regulated investment advisor or other institutional money manager to make investments...

Service Charges
IC 5-13-9-8

The payment of service charges is permitted.
- (1) By direct charge to the account or
- (2) By subtracting the service charge from the interest earned*
  - *report net interest in your records, not the amount of the service charge

Service charge must be considered in the computation of the interest rate for determining which depositories are entitled to investments in transaction accounts or certificates of deposit.
Utility Funds

Cities and Towns Bulletin, December 2015

- IC 8-1.5-3-13 states: "The municipal legislative body may by ordinance, authorize officers charged by law with custodial care, expenditure and investment of utility money to invest or reinvest surplus money of a utility in a manner prescribed by IC 5-13-9."

- If meter deposits are invested, the interest may be applied to and used in the operation or depreciation fund of the municipally owned utility as determined by its governing body. (IC 5-13-9-6)

Manner of Investing Funds

- Investments should be made in the following manner:
  - By fund, where any statute or the terms of any bequest, federal, state or private grant, endowment or trust make provisions for investments, with the interest to accrue to the benefit of such fund.
  - By fund, if so determined by the governing board.
  - From the total of monies on deposit, after giving consideration to (1) and (2) above.
Posting Interest

IC 5-13-9-6

General Rule:
- Interest should be credited to the General Fund or
- any other fund designated by Council

Specific Rules:
- Interest received on United States Government Funds
- Interest from investments of funds controlled by court orders
- Bond Resolution requirements
- Interest on utility meter deposits must be applied to the operating or depreciation fund of the utility.

Interest on investments should not be added automatically to the investment. Instead, interest on investments should be paid to the governmental unit at each maturity date and posted to the appropriate fund.

Renewal of CDs

- A certificate of deposit may be renewed for an additional term if authorized by the governing board, without the original certificate of deposit being paid by the depository and a warrant being issued for the purchase of a new certificate of deposit.

- However, if renewed, the interest due the city or town shall be paid to the fiscal officer at each maturity date, or the records should show transactions which will reflect the true financial condition and the amount invested at all times.

- The interest shall not be added to the original deposit and reinvested by the depository without being recorded in the records.
Procedure for Posting Purchase or Sale of Investments

- At the time investments are purchased, enter the full cost of the securities (purchase price plus accrued interest) as a disbursement from the fund or funds from which the investment is made.
- The Investment Register, General Form 350, or an alternative form providing the same information should be used for keeping a record of all investments purchased by the political subdivision.
- Interest received in such investments by fund should be entered as a receipt to the fund from which the investment was purchased. Interest received from investment of “total monies on deposit” should be receipted to the general fund or the fund specified by the governing board.
- When the investments by fund are sold, the full amount of such sale should be entered as receipt to the fund from which the investment was made. The receipt should show separately the principal (purchase price) received and the interest received from the investment.
Audit Expectations

Review of Internal Controls

Compliance - Statute & Local Policy

Annual Financial Report

Investment Statements

Notes to the Financial Statements: Regulatory Format

Note 1. Summary of Significant Accounting Policies

C. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.
Note 4. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana, at year end, should be entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statutes authorize the City to invest in securities including, but not limited to, the following: federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.
Questions?

Thanks for being here with us today!

Indiana State Board of Accounts