



Accounting for Investments

AIM Virtual Clerk-Treasurers School

May 20, 2022



Indiana State Board of Accounts - 2022

Internal Controls Objectives

Operations

- Safeguard assets

Compliance

- Laws & regulations

Reporting

- AFR & Financial Statements



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IC 5-11-1-27 – Internal Controls

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



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Deposit of Public Funds

IC 5-13-6

- Timely Deposit of Receipts
- Approved Depositories

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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**

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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>

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

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Council Responsibilities IC 5-13-9

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

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City /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.

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City /Town Fiscal Officer Responsibilities

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

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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 funds
- Investment must be made through a "depository"
- Portfolio is limited to certain investments

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Investment of Public Funds IC 5-13-9-4

- **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

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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

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Investment of Public Funds IC 5-13-9-11

- Local Government Investment Pool
 - Trust Indiana
- www.trustindiana.in.gov
 - Select "Relationship Team"
 - Cindy Barger

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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

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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;

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Terms of Investments & Investment Policy

IC 5-13-9-5.6 & IC 5-13-9-5.7

With Investment Policy – (continued)

- (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.

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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...



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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.

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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)

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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 considering (1) and (2) above.

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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.

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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.

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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.

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Procedure for Posting Purchase or Sale of Investments

(continued)

- 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.

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Prescribed by State Board of Accounts

General Form No. 350
(Revised 1982)

REGISTER OF INVESTMENTS

Name of Unit _____ Fund _____
(USE SEPARATE SHEET(S) FOR EACH INVESTMENT FUND. LIST EACH SECURITY INDIVIDUALLY.)

Date of Purchase	Nature of Investment	Serial No.	SAFEKEEPING RECEIPT		Maturity Date	Rate of Interest	Maturity Value	AMOUNT PAID			Date Sold or Redeemed	AMOUNT RECEIVED			INTEREST					
			Issued By	No.				Principal	Accrued Interest	Total Paid		Principal	Interest	Total Received	EARNED		RECEIVED			
																	Date	Amount	Date	Amount

sample

Interest Earned for Each Investment on Hand at December 31. —Calculated By: Multiply: Rate of Interest X(Times) Principal X(Times) Number of Days from Date of Purchase to December 31 Divided By: 360 (Days)

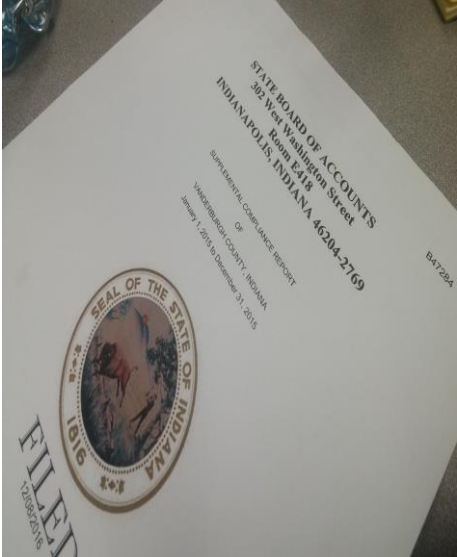
(Investments purchased and then either sold or redeemed in the same calendar year don't need a calculation because interest earned equals interest received.)

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Audit Expectations

- Review of Internal Controls
- Compliance - Statute & Local Policy
- Annual Financial Report
- Investment Statements



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**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.

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**Notes to the
Financial
Statements:
Regulatory
Format**

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.

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SBOA Guidance

Cities and Towns Manual

Cities and Towns Manual

- Investment Policy.....p. 1-12
- Deposits and Investments.....p. 1-13 to 1-17
- Deposit and Investment, Bank Accounts..... p. 7-14-15
- Restricted Donations.....p. 7-21
- Levy Excess Fund..... p. 7-24
- Investment of Proceeds of Sale of Bonds.....p. 7-30

SBOA Guidance

Cities and Towns Bulletins

Cities and Towns Bulletins

- Accounting for Interest.....Dec 2011
- Accounting for Interest - City & Town Courts.....Sept. 2018
- Authority for Purchasing Investments.....Sept. 2017
- City and Town Court Funds.....Sept. 2018
- Deposit Interest Earned - CreditingDec 2011
- Money Market Mutual FundsJun 2019 & Jun 2018
- SecuritiesJune 2018
- Utility FundsDec. 2015

Questions?



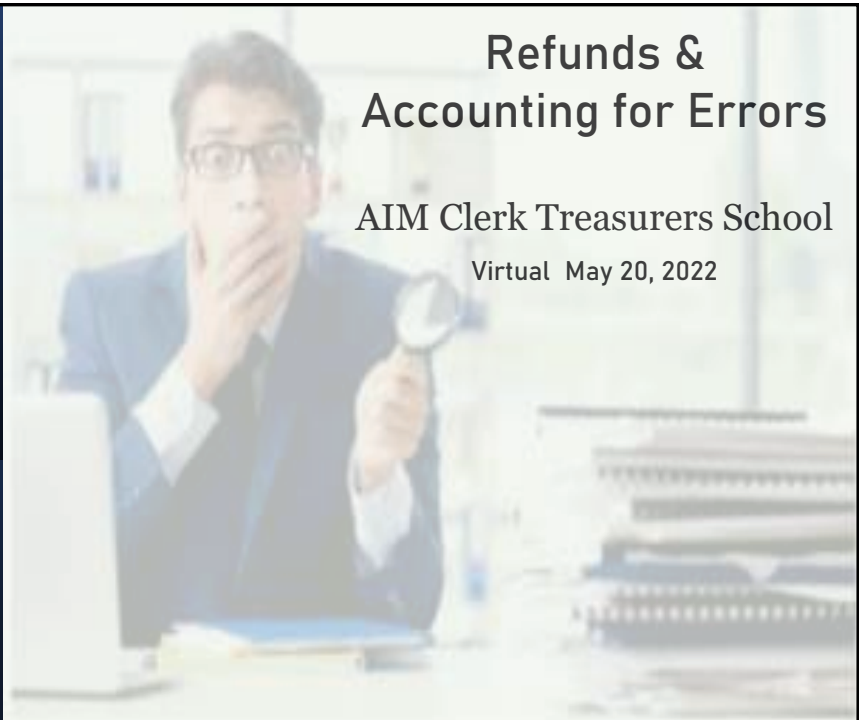
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Refunds & Accounting for Errors

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Virtual May 20, 2022



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Refunds


Treatment of Refunds for Overpayments & Errors

- Money received constituting refunds of appropriation expense, which correct or adjust any previous payments in the same budget year shall be recorded as a receipt in the fund from which the payment was made and be credited to the appropriation affected.
- If a refund covers payments made in a prior budget year, the appropriation account shall not be credited.
- IC 6-1.1-18-9(1)

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Refunds


Treatment of Refunds for Money Collected in Error

- Refunds of moneys improperly or erroneously received by the city or town, such as an overpayment of a fee or license, may be repaid without appropriation.
- If a refund covers payments made in a prior budget year, the appropriation account shall not be credited.
- IC 6-1.1-18-9(2)

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Refunds

IC 6-1.1-18-9 Reappropriations from erroneous or excessive disbursements; refunds without appropriation


Sec. 9. Notwithstanding the other provisions of this chapter, the proper officer or officers of a political subdivision may:

- (1) reappropriate money recovered from erroneous or excessive disbursements if the error and recovery are made within the current budget year; or
- (2) refund, without appropriation, money erroneously received.

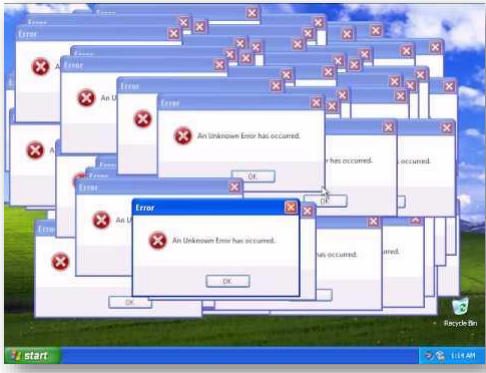


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Accounting for Errors



Computerized Accounting System:

If an error is discovered after the transaction is posted, a separate correcting transaction must be made in the accounting period that it is discovered. Under no circumstances must an error be corrected in a year that has been closed.

Accounting & Uniform Compliance Guidelines Manual for Indiana Political Subdivisions – Information Technology



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Accounting for Errors

Computerized Accounting System:

Accounting information must not be modified by computer utility programs which are not contained in the accounting application system. The accounting application system must be supported by the computerized and manual procedures to ensure the following error correction controls are implemented:

- The type of error condition is recorded.
- The original transaction creating the error is retained within the system.
- A reversing transaction to eliminate the effect of the error is entered and retained with the system.
- The correct transaction is entered into the system and recorded.
- Management approval for error correction is documented.

Accounting & Uniform Compliance Guidelines Manual for Indiana Political Subdivisions – Information Technology

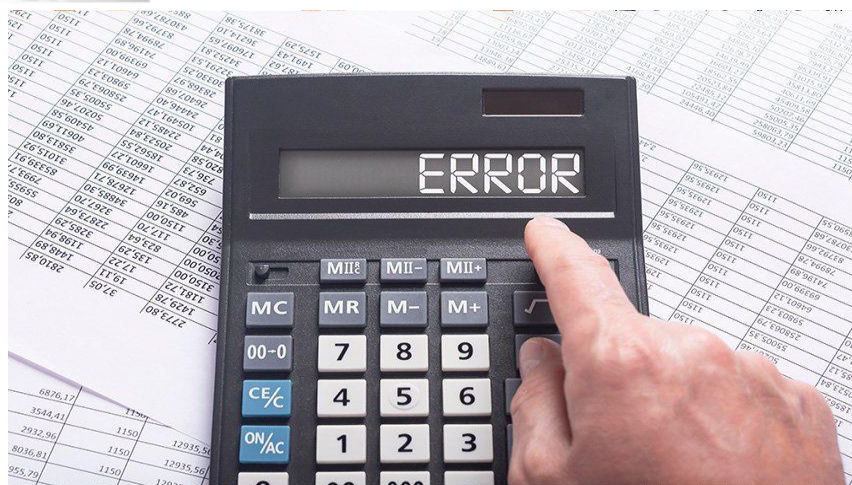


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Questions ??



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