Paul D. Joyce, CPA
State Examiner

CITIES AND TOWNS BULLETIN

ISSUED BY THE STATE BOARD OF ACCOUNTS

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STATE BOARD OF ACCOUNTS CONTACT INFORMATION

SBOA Homepage: www.in.gov/sboa
(for information specific to Cities & Towns, select Entities We Examine and then select Cities or Towns as applicable)
Government Technical Assistance & Compliance (GTAC) Directors:

Beth Goss and Elise Bowling Email Address: cities.towns@sboa.in.gov – NOTE: if you are emailing questions, please send them to this email address and not our individual work emails. Phone Number: (317) 232-2513

Gateway Help Desk: gateway@sboa.in.gov or AnnualReports@sboa.in.gov (either email address will take you to the helpdesk)

SBOA Communications: communications@sboa.in.gov

2025 Indiana General Assembly – link for Indiana Code search:
https://iga.in.gov/laws/2025/ic/titles/1

UPCOMING TRAINING

July 12th through July 16th the Indiana League of Municipal Clerks and Treasurers' (ILMCT) and State Board of Accounts will hold their Annual Conference and Annual Training School for City and Town Clerk-Treasurers, City Clerks, and City Controllers. This training will be held in Michigan City at Blue Chip Casino.

September 16th the Impact Annual Conference. This conference will be held in Muncie. Be on the lookout for additional information in the upcoming months.

September 29th to October 1st the AIM Ideas Summit. This summit will be held at French Lick Resort. Be on the lookout for additional information in the upcoming months.

ACCOUNTING FOR BUILDING AND CONSTRUCTION RELATED FEES

On June 19, 2026, the State Examiner issued Directive 2026-01. The new Directive provides guidance on HB 1001, regarding Accounting for Building and Construction Related Fees. For reference, the Directive is copied below.

State Examiner Directive 2026-01

This State Examiner Directive instructs how cities, towns, and counties must account for and record "Building and Construction Related Fees" permitted under Indiana Code 36-7-2.3 after **December 31, 2026**.

House Enrolled Act 1001 (2026) added several new provisions to the Indiana Code, including IC 36-7-2.3, entitled "Limits on Building and Construction Related Fees." The relevant provisions discussed in this State Examiner Directive have a statutory application date "after December 31, 2026." See IC 36-7-2.3-3.

IC 36-7-2.3 applies to:

> . . . a fee imposed by a unit for approval of an application related to:
> (1) construction or reconstruction of:
>
> (A) residential buildings;
> (B) commercial buildings;
> (C) industrial buildings;
> (D) any other building or building space; or
> (E) an appurtenance to a building described in clauses (A) through (D); or
>
> (2) zoning, development, subdivision, classification, or reclassification of land; including a fee designated as a permit fee (including a fee for a permit under IC 36-7-4-1109(f)), application fee, inspection fee, processing fee, or by another name.

IC 36-7-2.3-1.

This new legislation provides the express prohibition that any fee assessed or collected by a unit after December 31, 2026, must "not at any time revert to the general fund or any other fund of the unit." IC 36-7-2.3-3(3).

Further, any fee assessed and collected after December 31, 2026, "must be maintained in a special fund dedicated solely to reimbursing the costs actually incurred by the unit relating to the imposition and amount of the fee." IC 36-7-2.3-3(3).

As a result, after December 31, 2026, the State Examiner directs all cities, towns, and counties who impose and collect fees subject to IC 36-7-2.3 to deposit and account for those fees in a fund that has been created by the Indiana State Board of Accounts (SBOA) with the following numbers and names:

Counties #1240 - Building and Construction Related Fees Fund
Cities and Towns #2260 - Building and Construction Related Fees Fund

Each unit's Building and Construction Related Fees Fund must separately account for the receipts and expenditures related to each type of fee imposed and collected by the unit (i.e., application, processing, inspection, etc.), and all fees must be deposited into the Building and Construction Related Fees Fund.

During an audit or examination, the SBOA must be able to identify that every fee subject to IC 36-7-2.3 was properly deposited and accounted for in the Building and Construction Related Fees Fund and that no public funds, once deposited, were transferred or reverted to the general fund or any other fund of the unit. Further, the SBOA must be able to determine the amount of fees each unit imposed and deposited for each type of fee (i.e., residential, industrial, commercial, etc.). Each unit must properly account for the same within the new Building and Construction Related Fees Fund.

The State Examiner also directs all units to maintain a subsidiary ledger which details:

1. All revenue received by individual fee source, and
2. All disbursements from each specific fee source.

Each unit's subsidiary ledger must be available for SBOA review during an audit or examination. Each unit's subsidiary ledger must be reconciled to the Building and Construction Related Fees Fund on a monthly basis.

LANE MILE DIRECT DISTRIBUTION FUND

Senate Enrolled Act 179 (2026) amended several provisions of the Indiana Code, including amending the effective date of IC 8-23-30-2(k) contained in the Local Road and Bridge Matching Grant Fund statutes, IC 8-23-30 et seq. The relevant provisions in this State Examiner Directive have a statutory application date of "June 30, 2026," and "June 30 of each year thereafter. . . ." See IC 8-23-30-2(k).

The amended legislation provides:

> **(k) On June 30, 2026, after the state comptroller makes a transfer under [IC 8-23-30-2(i)], and on June 30 of each year thereafter, after the state comptroller makes a transfer under [IC 8-23-30-2(j)], the state comptroller shall distribute the remainder of the money in the [local road and bridge matching grant] fund, as follows:**
>
> **(1) To be eligible to receive a distribution under this section, a local unit must have:**
>
> **(A) adopted a wheel tax and vehicle excise tax; and**

(B) provided the local technical assistance program at Purdue University [LTAP] with an updated transportation asset management plan within the last twelve (12) months.

(2) The distribution to a local unit eligible to receive a distribution under [IC 8-23-30-2(k)(1)] must be proportional to the local unit's share of the total lane mileage for all local units eligible to receive a distribution under [IC 8-23-30-2(k)(1)]. The [Indiana Department of Transportation] shall provide to the state comptroller the total lane mileage for purposes of making the distribution under this subsection.

IC 8-23-30-2(k).

The statute further requires that local units receiving distributions under IC 8-23-30-2(k) "**may use a distribution . . . only for eligible projects.**"

"Eligible project" is defined as either:

(1) A project:

(A) that is undertaken by a local unit;

(B) that repairs or increases the capacity of local roads and bridges; and

(C) that is part of the local unit's transportation asset management plan [; or]

(2) A project that:

(A) is undertaken by a local unit; and

(B) reduces the risk to human life from low water crossings.

IC 8-23-30-1(a).

Due to the statutory restriction on the use of the distributions received pursuant to IC 8-23-30-2(k), the Indiana State Board of Accounts (SBOA) must be able to verify during an audit, examination, or other engagement that the distributions received by eligible cities, towns, and counties, were used only for eligible projects as defined by IC 8-23-30-1(a). Receipting the distributions into a separate fund will enable the SBOA to confirm the distributions were expended for purposes allowed by law. The SBOA will issue instruction in the near future relating to the new fund that cities and towns must establish for these distributions.

Money in the Lane Mile Direct Distribution Fund must be appropriated prior to expenditure. Because use of the distributions is restricted, unexpended money in the Lane Mile Direct Distribution Fund is not returned to the State and does not revert to the local unit's general fund.

A unit wishing to account for these particular public funds in a manner different than this Bulletin Article must request and receive written approval from the State Examiner.

REDEVELOPMENT COMMISSIONS – POLICE AND FIRE EXPENDITURES

Effective January 1, 2023, redevelopment commissions (RDCs) were granted the power to spend tax increment financing (TIF) funds on police and fire services. [IC 36-7-14-39(b)(4)(N) ("proceeds may be used to expend revenues that are allocated for police and fire services on both capital expenditures and operating expenses as authorized in section 12.2(a)(28)….")]. If the RDC wishes to expend TIF funds on police and fire expenses, regardless of whether the expenses are capital or operational, the RDC must ensure it maintains adequate documentation to allow the SBOA to confirm during audit that the TIF funds were expended for an allowable purpose. The expenditure must be included in the annual spending plan described in section IC 36-7-14-12.7.

To avoid a critical audit finding concerning TIF expenditures on police and fire services, the RDC must expend the TIF funds in one of two ways:

(1) Disburse the payments directly from the RDC Allocation fund by following the claims process in IC 36-7-14-8(c) and IC 36-7-14-29; or

(2) Complete the following steps:

   a. Pass a resolution that allows for a transfer to the city, town, or county from the TIF funds.

      i. The resolution must identify how the restricted funds will be used in accordance with IC 36-7-14-39(b)(4)(N) and IC 36-7-14-12.2(a)(28).

      ii. The resolution must indicate that the RDC is directing the use of the funds.

   b. The appropriate governing body of the unit must adopt a resolution accepting the transfer and acknowledging the restricted uses identified in the RDC's resolution.

   c. Internal controls must be in place to ensure the TIF allocation funds paid to the unit are expended in accordance with IC 36-7-14-39(b)(4)(N) and IC 36-7-14-12.2(a)(28).

      i. Documentation supporting the lawful expenditure of the transferred dollars must be maintained for SBOA audit or examination.

      ii. This documentation must include detail listing of expenses paid from the TIF allocation funds and a current balance of the allocation funds remaining. (IC 36-7-14-8)

   d. If the RDC opts to transfer the TIF funds and the appropriate governing body of the unit accepts the transfer, the unit must also have a plan for transferring any unexpended TIF money back to the allocation fund at the end of the year.

i. In general, at the end of the year, any appropriated but unused and unencumbered balance reverts into the fund from which the appropriation was made. [IC 36-1-8-6(a)].

ii. However, IC 36-7-14-29(b) prohibits TIF funds from reverting to a unit's general fund.

1. IC 36-7-14-29(b) identifies a TIF fund as "a continuing fund" and makes clear that any transferred, unexpended funds do not "revert to the general fund of the unit."

BUY MONEY

The following procedures shall be followed if a municipality wishes to obtain an appropriation and make expenditures for buy money or payments to informants:

1. Under IC 36-1-3 an ordinance shall be passed allowing this type of program and associated expenditures;
2. An appropriation for such purpose must be obtained in the manner authorized by state statutes;
3. Petty cash fund procedures are to be followed as authorized by IC 36-1-8-3; and
4. A minimum documentation procedure must be followed, similar to either:

A. "*Guidelines for the Expenditure of Confidential Funds*," published by the U.S. Department of Criminal Justice.

B. "*Guidelines for Obtaining and Accounting for Confidential Funds Used in Support of Criminal Investigations*," (Revised S.O.P. PR – INV-0017), by the Indiana State Police Department.

PUBLIC PURCHASES – USE OF ANOTHER GOVERNMENT'S BID

IC 36-1-7-12 authorizes governmental entities to make a purchase from any other governmental entity or under another governmental entity's referenced written contract if there is compliance with the state purchasing law by the original purchasing unit. Two (2) or more governmental entities may procure together or with a nonprofit entity if the requirements of the public purchasing statutes are met.

DONATING PUBLIC FUNDS TO AID COMMUNITY PROGRAMS

IC 36-10-2-4 allows a city or town to establish, aid, maintain and operate libraries and museums, cultural, historical and scientific facilities and programs and community service facilities and programs.

Further, IC 36-10-2-5 allows a city or town to establish, aid, maintain and operate neighborhood centers, community centers, civic centers, convention centers, auditoriums, arenas and stadiums.

If a city or town desires to fund one of the aforementioned programs or activities, a written contract documenting what services are to be provided to the city or town is required. We'd also recommend consulting an attorney