

Cities and Towns
Notes to the Financial Statements
Enhanced Regulatory Basis of Accounting

This document contains information regarding the additional Notes to the Financial Statements for the Enhanced Regulatory Basis of Accounting. The purpose of this document is to provide you with a summary of the additional note disclosures and guidance on how to begin preparing for the note disclosures that apply to your unit.

For detailed requirements of each note disclosure, please refer to the Schedule of Regulatory Changes and the Accounting and Financial Regulatory Reporting Manual. Please also see the document, City/Town – Regulatory Report, which is an example report providing a sample format of financial statements and notes for cities and towns after the implementation of the Enhanced Regulatory. If a note disclosure within the example report is not applicable to your unit, it will not appear in your specific report. These resources can be found on the SBOA website, www.in.gov/sboa. Navigate to the City or Town section under Political Subdivisions.

For questions, please contact the City and Town Directors, Todd Caldwell and Susan Gordon, at cities.towns@sboa.in.gov.

2019 Note Disclosures

Long-Term Debt

If your unit has indebtedness that will be repaid over more than one year, your unit must report this as long-term debt in Gateway for the note disclosure. To do this, you will need to gather information from your debt instruments, amortization schedules, and ledger balances.

In order to prepare for the next Annual Financial Report, you can use the following checklist as guidance:

- Identify long-term debt by major class
- Identify each major class by activity
- Determine the beginning balance of each debt class by activity
- Determine additions and reductions in long-term debt balances
- Determine the ending balance of each debt class by activity
- Determine the portion of each long-term debt type due within one year
- Complete Debt Management Report information
- Update Debt Management Report as needed

Debt Service Requirements to Maturity

If your unit has indebtedness or leases, the amortization schedules you provide in the Debt Management Report will be used to automatically generate this note disclosure for Debt Service Requirements to Maturity for both long-term debt and leases.

Leases

If your unit has entered into lease agreements, your unit must report this in Gateway for the note disclosure. To do this, you will need to gather information from your lease agreements and amortization schedules.

In order to prepare for the next Annual Financial Report, you can use the following checklist as guidance:

- General description of lease arrangements
- Name of Lessor
- Lease beginning date
- Lease ending date
- Annual lease payment
- Complete DLGF Debt Management Report information in Gateway
- Update DLGF Debt Management Report as needed

Interfund Transfers

If your unit has transferred money between funds during the reporting period, your unit must report these transfers in Gateway for the note disclosure. To do this, you will need to gather information from your ledger. Any transfers that occurred that would be considered unusual or outside of the normal routine should be described in the space provided in Gateway.

Deficit Fund Balances

If your unit has any ending cash balances that are less than zero during the reporting period, a report showing the deficit balances will automatically be generated in Gateway for the note disclosure. To prepare for this, you will continue to provide information for the Financial Data by Fund report in the Annual Financial Report. Gateway will provide the report once this is completed.

Significant Contingent Liabilities

During an audit, management will be asked if your unit has any significant contingent liabilities, such as a potential lawsuit or pending investigation. This information will not be submitted in Gateway but will be disclosed in the notes. If a significant contingent liability exists, management will need to provide the following information to the auditor:

- Description of the contingent liability
- An estimate of the possible loss or range of loss

Significant Commitments

During an audit, management will be asked if your unit has entered into any significant commitments, such as construction. This information will not be submitted in Gateway but will be disclosed in the notes. If a significant commitment exists, management will need to provide the following information to the auditor:

- Description of the commitment
- The dollar amount of the commitment

Subsequent Events

During an audit, management will be asked if your unit has experienced any subsequent events. Examples of subsequent events include loss from a major uncollectible account, issuance of bonds, or loss of a facility due to a natural disaster. This information will not be submitted in Gateway but will be disclosed in the notes. If a subsequent event occurred, management will need to provide the following information to the auditor:

- Description of the event
- Expected dollar amount the event will cost

Pensions

If your unit offers a pension plan to employees that is outside of the plans offered by the Indiana Public Retirement System, such as a plan for utility employees, your unit must report the pension plan in Gateway for the note disclosure. To prepare for this, you will need to review your pension plan documents and gather the following information:

- Type of plan
- Benefits provided under the plan
- The Indiana Code that applies to the plan
- Description of vesting terms, if any
- Description of forfeiture terms, if any

Other Postemployment Benefits (OPEB)

If your unit offers other postemployment benefits that are not offered as a part of a pension plan, your unit must report the plan in Gateway for the note disclosure. To prepare for this, you will need to review your OPEB plan documents and gather the following information:

- Type of plan
- Benefits provided under plan
- Administrator information
- Participant information
- Contribution rates of your unit and your employees

Capital Assets

Capital assets will be presented as supplementary information, not a note disclosure, for 2019; however, because there are changes to the information required in Gateway, capital assets are presented here.

If your unit has assets that exceed your capitalization threshold, your unit must report these assets as capital assets in Gateway. In your capital asset ledger, you should have the historical cost (i.e. original cost) of the assets recorded. If you do not know the historical cost of the assets, you will need to document the current value of the property and then calculate the historical cost. The current value of the property can be documented by an appraisal, insurance records, property assessments, a market study, or through

some other reasonable basis. Once you find that basis, you can calculate the historical cost. Historical Cost Index tables are available in the Cities and Towns Bulletin, June 2019.

In order to prepare for the next Annual Financial Report, you can use the following checklist as guidance:

- Establish Capitalization Policy
- Maintain Capital Assets Ledger (prescribed form)
- Identify Capital Assets by Activity
- Identify Capital Assets by Major Class
- Confirm Beginning Balance for 2019
- Report Additions to Capital Assets
- Report Reductions in Capital Assets
- Compare Ending Balance to Capital Assets Ledger

2020 Note Disclosures

Capital Assets

Capital assets will be presented as a note disclosure in 2020.

If your unit has assets that exceed your capitalization threshold, your unit must report these assets as capital assets in Gateway for the note disclosure. In addition to the information you are already providing from the 2019 enhancements, your unit must report accumulated depreciation in Gateway for the note disclosure.

In order to prepare for the 2020 Annual Financial Report, you can use the following checklist as guidance:

- Establish depreciation method
- Document the estimated useful lives of the capital assets
- Calculate the amount of accumulated depreciation of the capital assets

Conduit Debt

If your unit issues conduit debt, your unit must report the conduit debt in Gateway for the note disclosure. Conduit debt is a debt instrument issued for an unrelated third party to provide capital financing where your unit is not responsible for that debt beyond resources provided by the lease or loan with the third party. To prepare for this, you will need to review your debt issuances involving capital financing for a third party. You will need the following information:

- Description of conduit debt transactions
- The aggregate amount of all conduit debt outstanding

Short-Term Debt

If your unit has issued indebtedness that will be repaid in one year or less, your unit must report this as short-term debt in Gateway for the note disclosure. To do this, you will need to gather information from your debt instruments and ledger balances.

In order to prepare for the 2020 Annual Financial Report, you can use the following checklist as guidance:

- Identify short-term debt issuances
- Identify the purpose of the debt issuances and provide a description
- Determine the beginning balance of each debt issuance
- Determine additions and reductions in short-term debt balances
- Determine the ending balance of each debt issuance

Tax Abatements

Even though your unit may not enter into any tax abatement agreements, it is possible that your unit is still impacted by other units entering into tax abatement agreements. If your unit is impacted by other units entering into tax abatement agreements, your unit must report this in Gateway for the note disclosure.

To obtain tax abatement information, you will need to contact your County Auditor. They will have the information you need to determine the amount by which your property tax dollars were reduced as a result of another unit's tax abatement agreements.

In order to prepare for the 2020 Annual Financial Report, you can use the following checklist as guidance for the information you will need the following information:

- A threshold for your unit to determine if any agreements should be disclosed individually or in the aggregate
- A description of the abatement agreements that includes the names of the governments that entered into the agreements and the specific taxes being abated (i.e. real or personal property)
- The gross dollar amount by which your unit's tax revenues were reduced during the reporting period as a result of the tax abatement agreements
- Amounts receivable from other units in association with the forgone tax revenue

Landfill Closure and Postclosure Care

If your unit is responsible for closure and postclosure care of a landfill, your unit must report this in Gateway for the note disclosure. To do this, you will need to review the information provided on State Forms 50391 (Municipal Solid Waste Landfill Closure Plan) and 50388 (Municipal Solid Waste Landfill Post-Closure Plan) to the Indiana Department of Environmental Management.

In order to prepare for the 2020 Annual Financial Report, you can use the following checklist as guidance:

- Determine applicable laws and regulations
- Gather information from State Forms 50931 and 50388
- Determine the length of time the unit is responsible for closure and postclosure care
- Calculate the landfill capacity used to date
- Calculate the liability for closure and postclosure care

- Provide the financing option chosen to establish financial responsibility of the closure and postclosure care costs

Related-Party Transactions

If your unit entered into a related-party transaction, your unit must report this in Gateway for the note disclosure. A related-party transaction occurs where there is the ability to significantly influence the management or operating policies of the transacting parties, or where there is ownership interest in the transacting parties.

Examples of related parties include:

- A government's related organizations, joint ventures and jointly governed organizations
- Elected and appointed officials of the government
- The government's management
- Members of the immediate families of elected or appointed officials of the government and its management
- Other parties with which the government may deal if one party can significantly influence the management or operating policies of the other to the extent that one of the transacting parties might be prevented from fully pursuing its own separate interests

To prepare for this, management will need to review the amount of influence associated with entities with which you contract and any interlocal agreements. You will need the following information:

- Description of the relationship with the other entity
- Description of the transaction that occurred
- The dollar amount of any receivables or payables

Joint Ventures

If your unit has an ongoing financial interest or financial responsibility in a joint venture, your unit must report these arrangements in Gateway for the note disclosure. A joint venture is a legal entity that results in a contractual arrangement owned, operated, or governed by two or more participants where the participants have joint control. An ongoing financial interest means you are allowed to access the joint venture's resources. An ongoing financial responsibility means your unit is obligated in some manner for the debts of the joint venture, or the joint venture is dependent upon your unit for financial funding. To report this, management will need to review interlocal agreements and contractual arrangements. You will need the following information:

- Description of the joint venture
- Description of the financial interest in the joint venture

Interfund Loans

If your unit has made interfund loans during the reporting period, your unit must report any loans that were not repaid by the end of the reporting period in Gateway for the note disclosure. An interfund loan is a temporary transfer and must be paid back to the original fund. To do this, you will need to gather information from your ledger. The reason the interfund loans were not repaid by the end of the reporting period should be described in the space provided in Gateway.