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# STATE BOARD OF ACCOUNTS

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ILMCT Institute & Academy

March 17, 2025

Mitch Wilson & Beth Goss





# ***PAUL D. JOYCE, CPA STATE EXAMINER***

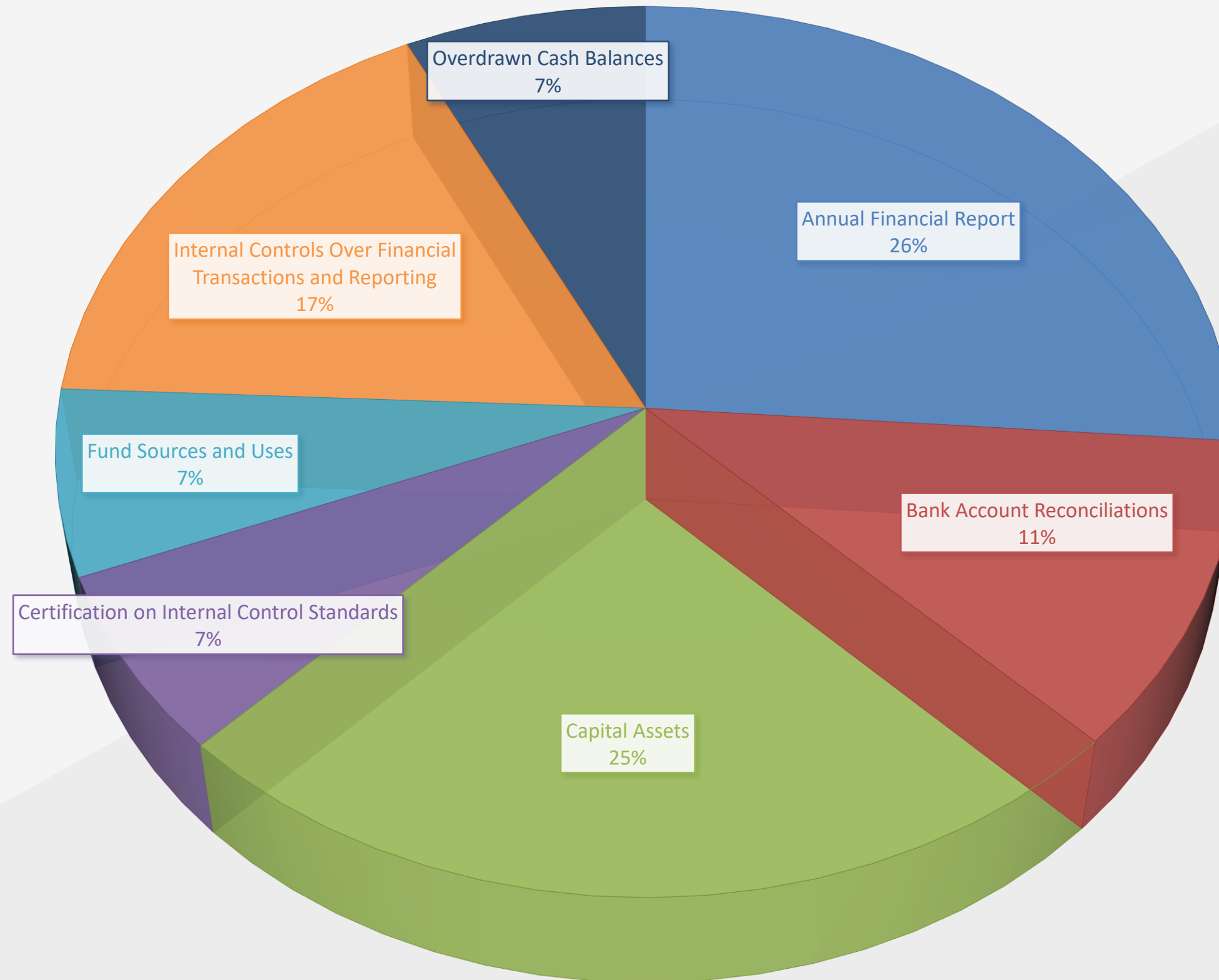
Indiana's State Examiner and the agency head for the State Board of Accounts, Paul Joyce coordinates and manages the post-audits and examinations of over 4,000 state and local governmental entities in Indiana.



# ***Audit Comments***



# 2024 Common Comments





# *Annual Financial Report*

- Financial and other information are required to be entered annually into the Annual Financial Report (AFR) via the Indiana Gateway for Government Units (Gateway) financial reporting system. The City/Town did not have adequate **internal controls** over the AFR information entered into Gateway, which resulted in the following errors:



# ***Internal Controls***

**Annual Financial  
Report**

**26%**

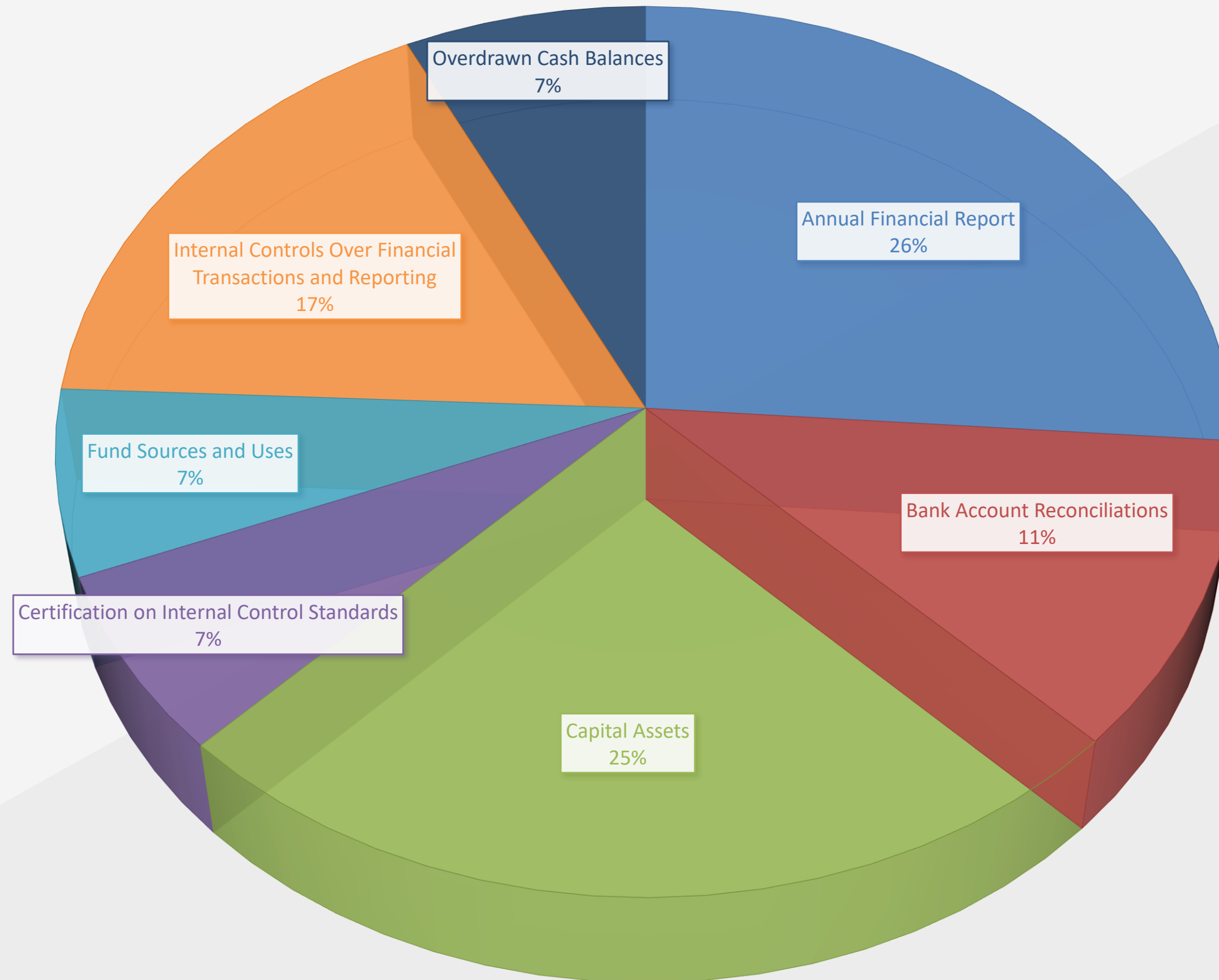
**Internal Controls  
over Financial  
Transactions and  
Reporting**

**17%**

**Certification of  
Internal Control  
Standards**

**7%**

# 2024 Common Comments





# *Overdrawn Cash Balances*

- The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit.
- (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

# ***Fund Sources and Uses***

**Motor Vehicle  
Highway**

**Local Road and  
Street**

**Parks and Recreation  
Non-Reverting**

**Utility Operating**

**Rainy Day**

# ***Motor Vehicle Highway***

- **Specific Uses in IC 8-14-1-5**

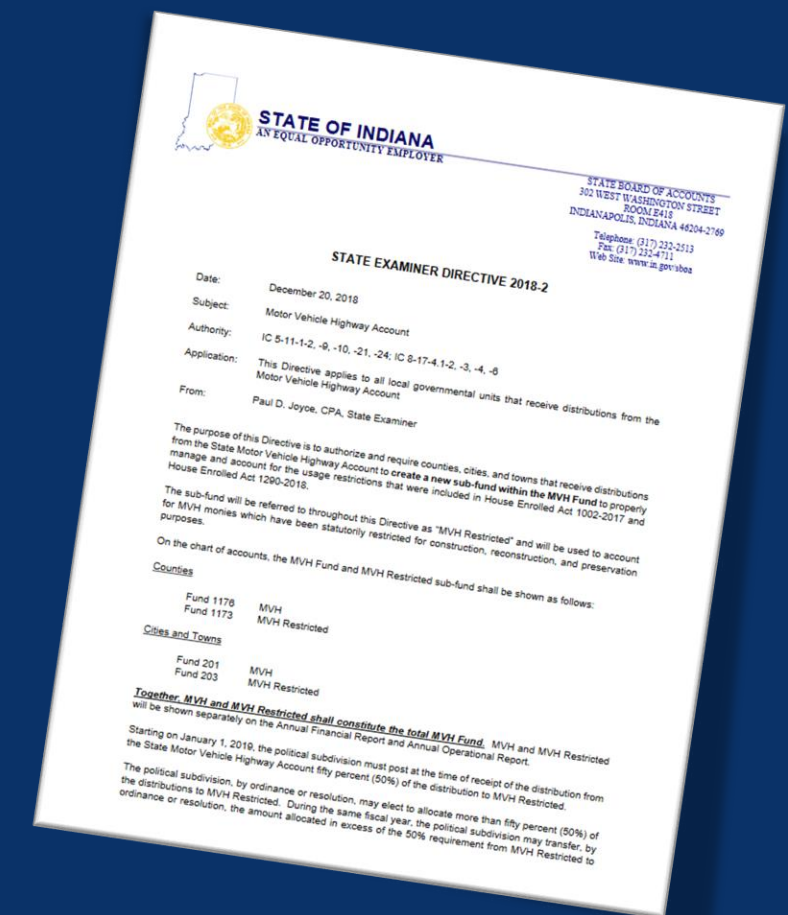
- Principally used for construction and maintenance of streets and alleys

- Construction
- Reconstruction
- Repair
- Maintenance
- Oiling
- Sprinkling
- Snow removal
- Weed and tree cutting
- Cleaning of highways

- Curbs
- Unit's share of cost of separation of grade railroad crossings
- Purchase/lease of highway construction & maintenance equipment
- Traffic signs and signals
- Safety zones and devices
- Painting of structures, objects, surfaces in highways for purposes of safety and traffic regulation

# MVH Restricted

- IC 8-14-1-5(c)
- Created by State Examiner Directive 2018-2
- Fund 2203 on your ledgers
- Is a sub-fund of MVH
- <https://www.in.gov/sboa/about-us/state-examiner-directives/>



# ***MVH Restricted***

- “At least” 50% of State MVH distributions into MVH Restricted (#2203)
- Used for:
  - Construction
  - Reconstruction
  - Preservation
- Can't be used for:
  - Snow removal
- CRP Definitions – Allowable Uses Document:  
<https://www.in.gov/sboa/files/MVH-CRP-definitions-ver-V.pdf>



# ***Local Road and Street***

## **Specific Uses noted in IC 8-14-2-5**

- Engineering, land acquisition, construction, resurfacing, maintenance, restoration, or rehabilitation of both local and arterial road & street systems
- Payment of principal & interest on bonds sold to finance road projects
- Local costs required to undertake a recreational or reservoir road project
- Purchase, rental, or repair of highway equipment

# ***Park Non-Reverting Funds***

- Authorized under IC 36-10-3-22
  - Operating Fund
    - Primary Purpose – General park purchases
  - Capital Fund
    - Primary Purpose – Acquire land or make capital improvements
- Funds must be appropriated by the fiscal body prior to being spent



# Utility Funds

- Clerk-Treasurer serves as treasurer of utility funds and thus the utility funds are to be kept on the city/town ledger

- **Common Utilities**

- *Water*
- *Wastewater*
- *Solid Waste*
- *Electric*
- *Gas*

- **Common Funds**

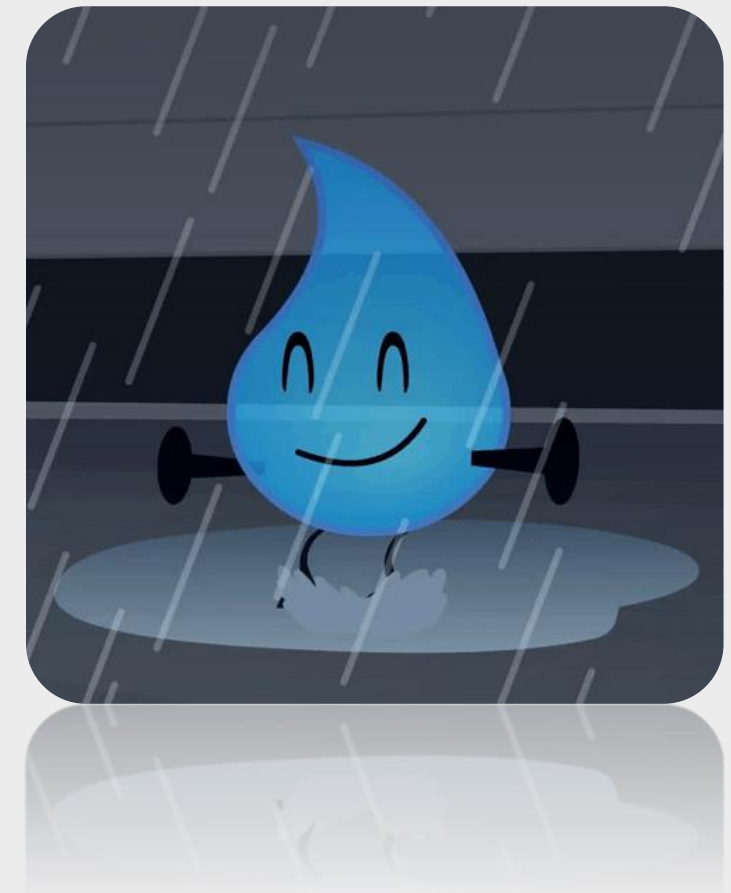
- *Operating*
- *Bond and Interest*
- *Depreciation*
- *Deposit*

- *Expenses paid from utility funds should be directly related to the operation of that respective municipally owned utility*

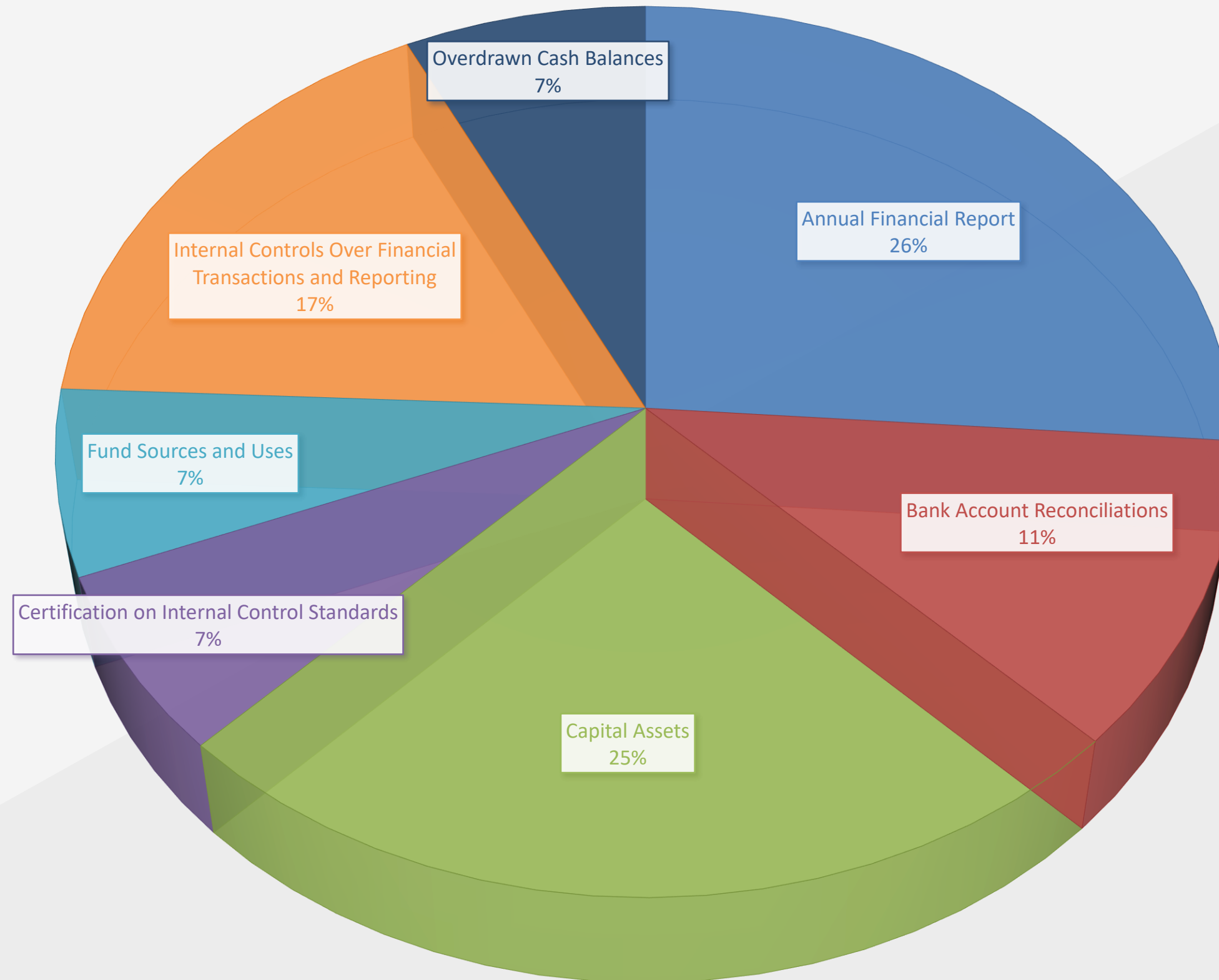


# *Rainy Day*

- Primary purpose – account for transfers of unused and unencumbered funds
- Fund created by ordinance in cities and towns
  - The ordinance should specifically state the source of receipts to the fund, and
  - Specifically state what the fund can be used for
- Amount transferred may not exceed 10% of annual budget for that fiscal year
  - *(previously was 15% through 12/31/24)*



# 2024 Common Comments



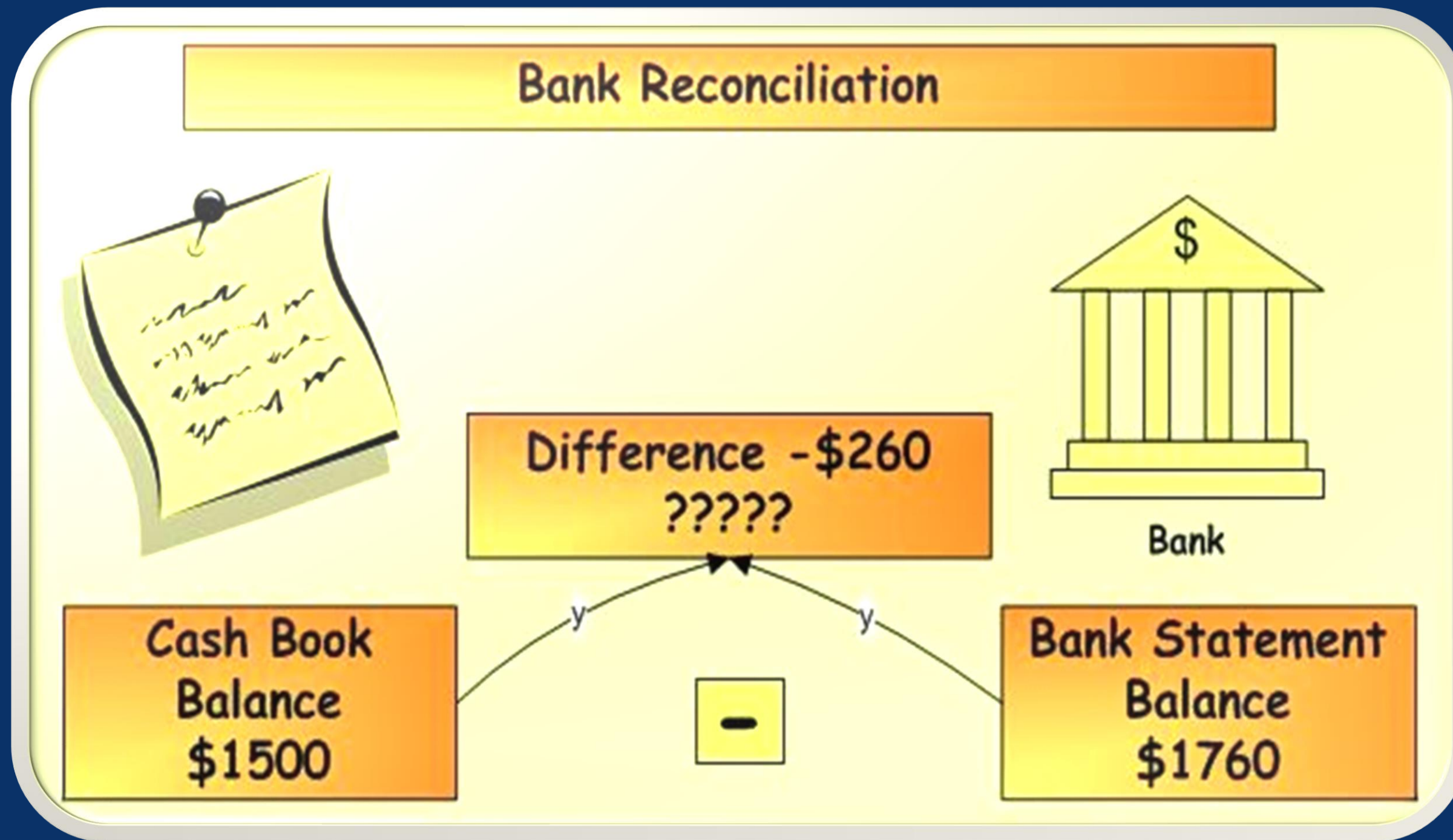


# ***Bank Reconcilements***

“All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories.” [IC 5-13-6-1(e)]

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# Bank Reconcilements





**IN CASE OF ERROR OR QUESTIONS ABOUT YOUR ELECTRONIC TRANSFERS:** - Telephone us at the phone number indicated on the reverse side, or write us at the address indicated on the reverse side, as soon as you can, if you think your statement or receipt is wrong or if you need more information about a transfer listed on the statement or receipt. We must hear from you no later than 60 days after we sent you the FIRST statement on which the error or problem appeared.



# *Bank Reconcilements*

Bank Reconcilement

Town

March

Bank Account Balance - March 31

\$74,832.14



# Bank Reconcilements

Bank Reconcilement

Town

March

Bank Account Balance - March 31

\$74,832.14

Add:

Deposits in Transit

150.17

*(money you have receipted in your ledger  
but the deposit hasn't shown up on the  
bank account by the end of the period)*

Date

Amount

3/29

125.17

3/30

25.00

150.17

# Bank Reconcilements

Bank Reconciliation				
Town				
March				
Bank Account Balance - March 31	\$74,832.14			
Add:				
Deposits in Transit	150.17	<u>Date</u>	<u>Amount</u>	
<i>(money you have receipted in your ledger</i>		3/29	125.17	
<i>but the deposit hasn't shown up on the</i>		3/30	<u>25.00</u>	
<i>bank account by the end of the period)</i>			150.17	
Less:				
Outstanding Checks	(5,170.54)	<u>Check</u>	<u>Date</u>	<u>Amount</u>
<i>(checks you have written and posted</i>		123	12/15	4.50
<i>to your ledger, but they have not been</i>		125	1/4	17.55
<i>paid - or "cleared" - the bank)</i>		130	1/24	100.00
		131	3/15	678.99
		132	3/29	<u>4,369.50</u>
Reconciling items:				5,170.54



# Bank Reconcilements

## Bank Reconciliation

Town

March

Bank Account Balance - March 31 \$74,832.14

Add:

Deposits in Transit	150.17	<u>Date</u>	<u>Amount</u>
<i>(money you have receipted in your ledger</i>		3/29	125.17
<i>but the deposit hasn't shown up on the</i>		3/30	25.00
<i>bank account by the end of the period)</i>			<u>150.17</u>

Less:

Outstanding Checks	(5,170.54)	<u>Check</u>	<u>Date</u>	<u>Amount</u>
<i>(checks you have written and posted</i>		123	12/15	4.50
<i>to your ledger, but they have not been</i>		125	1/4	17.55
<i>paid - or "cleared" - the bank)</i>		130	1/24	100.00
		131	3/15	678.99
		132	3/29	<u>4,369.50</u>
				5,170.54

Reconciling items:

Add or Subtract

Interest	(3.21)
<i>(put into bank account but not yet receipted)</i>	
NSF Checks	50.00
<i>(checks presented to you, receipted, but</i>	
<i>the checks bounce when they get to the</i>	
<i>bank)</i>	
Service Fees	5.00
<i>(fees charged by bank - taken out of account</i>	
<i>but not yet posted as disbursement to ledger)</i>	
Encoding Error	9.90
<i>(bank runs a check you wrote for \$100.10</i>	
<i>as \$110.00; they took out 9.90 too much)</i>	
Encoding Error	(0.10)
<i>(bank runs a deposit you recorded at \$55.55</i>	
<i>as \$55.65; they gave you \$.10 too much)</i>	



# Bank Reconcilements

Bank Account Balance - March 31	\$74,832.14			
Add:				
Deposits in Transit	150.17	Date	Amount	
(money you have receipted in your ledger but the deposit hasn't shown up on the bank account by the end of the period)		3/29	125.17	
		3/30	25.00	
			150.17	
Less:				
Outstanding Checks	(5,170.54)	Check	Date	Amount
(checks you have written and posted to your ledger, but they have not been paid - or "cleared" - the bank)		123	12/15	4.50
		125	1/4	17.55
		130	1/24	100.00
		131	3/15	678.99
		132	3/29	4,369.50
Reconciling items:				5,170.54
Add or Subtract				
Interest	(3.21)			
(put into bank account but not yet receipted)				
NSF Checks	50.00			
(checks presented to you, receipted, but the checks bounce when they get to the bank)				
Service Fees	5.00			
(fees charged by bank - taken out of account but not yet posted as disbursement to ledger)				
Encoding Error	9.90			
(bank runs a check you wrote for \$100.10 as \$110.00; they took out 9.90 too much)				
Encoding Error	(0.10)			
(bank runs a deposit you recorded at \$55.55 as \$55.65; they gave you \$.10 too much)				
Subtotal	69,873.36			
Ledger Balance March 31	69,873.36			
Difference	-			





# *Bank Reconcilements*

Subtotal		69,873.36	
Ledger Balance March 31		<u>69,873.36</u>	
Difference		<u><u>-</u></u>	
Fund Balances March 31			
General	32,016.35		
MVH	13,745.25		
LRS	4,321.10		
Park	1,234.90		
Water Utility	<u>18,555.76</u>	<u>69,873.36</u>	

# *Bank Reconcilements*

Bank Reconcilement  
Town  
March

General Account Balance - March 31	\$74,832.14
Water Account Balance - March 31	18,555.79
Sewage Account Balance - March 31	\$11,123.45

# Bank Reconcilements

Ledger Balance March 31		<u>80,861.04</u>
Difference		<u><u>-</u></u>
Fund Balances March 31		
General	32,016.35	
MVH	13,745.25	
LRS	4,321.10	
Park	1,234.90	
Water Utility	18,555.79	
Sewage Utility	<u>10,987.65</u>	<u><u>80,861.04</u></u>

# ***Bank Reconciliation Internal Controls***



# ***Keys to Avoiding Bank Reconciliation Comments***

**Complete  
Reconcilements  
Monthly**

**Verify  
Reconciliation  
Balances  
without Variance**

**Ensure  
Internal Controls  
are in Place**

# Capital Assets

- Guidance from Chapter 1 of the Accounting and Uniform Compliance Guidelines Manual for Cities and Towns:
  - *Every unit must have a capital asset policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records.*

# *Capital Assets*

## Capitalization Policy

- Threshold for all assets or groups of assets
- Estimated Useful Life
- Depreciation Method

**Capitalization  
rules**

# *Capital Assets*

## Land

- Land is often closely associated with another asset
  - Land under a building
  - Land purchased for a road
- Land should always be classified separately and not part of the cost of the other asset
- Records must include a description, amount of acreage (if relevant), acquisition date and purchase price
- Land is assumed to have an indefinite life and is not depreciated
- Usually, all land is capitalized

# *Capital Assets*

## Infrastructure

- Physical systems of government
  - Examples include streets & alleys, bridges, storm water and drainage, communication networks, water and sewer systems, parking lots, lighting systems, and dams
- Relative longer useful lives
- Non moveable
- LTAP, street department personnel, a city/town manager, or council member would have information to provide best estimate of useful lives

# *Capital Assets*

## Buildings

- Permanent Structures
- A capital asset account for buildings must reflect the location of each building and the purchase price or construction cost of improvements, if applicable
  - If a building is acquired by gift, record the appraised value at the time of acquisition
- City/Town halls, street department garages, and park community centers
- Useful life often long – maybe even 50 years – estimate based on use, maintenance, & quality

# *Capital Assets*

## **Improvements Other than Buildings**

- Improvements to land other than buildings that add value to the land but do not have an indefinite life
- Examples include fences, retaining walls, sidewalks, parking lots and most landscaping
- Useful life will depend on the improvement and can depend on the material used and environment

# *Capital Assets*

## Equipment

- Machinery, trucks, cars, street & road equipment, computer servers, safes, furnishings, desks, cabinets and other office equipment
- Separately account for equipment purchased with federal dollars and be aware of Federal requirement
- Useful life by category of equipment. Often 5 to 10 years

# *Capital Assets*

## **Books and Other**

- Books
  - Collections valued as a whole, will be exhausted through general use
  - Most common with libraries
    - Municipalities may have historical books
- Other Collections with Indefinite Life
  - Museums and historical collections
  - Art Collections
  - Not depreciated if:
    - purpose of the collection is display or research
    - collection is being adequately maintained
    - proceeds from the sale of collection items is applied to acquiring new items

# *Capital Assets*

## Construction in Progress

- This category allows for the collection of costs in the construction of a capital asset such as new building or road
- When the project is completed, it is moved from Construction Work In Progress to the applicable capital asset category such as building or infrastructure
- Category is not depreciated – once placed in service depreciation will start

# *Capital Assets*

## **Listing of Assets**

- Items only over threshold listed in capitalization policy
- Historical Cost
  - Claim for purchase
  - Contract for construction costs
  - Board minutes or other historical documents
- Estimating Historical Cost
  - Current cost of asset
  - Consumer Price Index calculation
  - Basis for estimate and documentation of basis
  - Table in December 2024 *Cities and Towns Bulletin*

## 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. Obtain an estimate of the replacement costs of these assets. Through inquiry determine the year or approximate year of acquisition. Then multiply the estimate 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 1930, then the estimated cost of the asset should be reported as \$3,800.00 (\$76000 x .05).

TABLE OF COST INDEXES  
1916 to 2023

<u>Year</u>	<u>Index</u>	<u>Year</u>	<u>Index</u>	<u>Year</u>	<u>Index</u>	<u>Year</u>	<u>Index</u>
<b>2023</b>	1.00	<b>1996</b>	0.51	<b>1969</b>	0.12	<b>1942</b>	0.05
<b>2022</b>	0.96	<b>1995</b>	0.50	<b>1968</b>	0.11	<b>1941</b>	0.05
<b>2021</b>	0.89	<b>1994</b>	0.49	<b>1967</b>	0.11	<b>1940</b>	0.05
<b>2020</b>	0.85	<b>1993</b>	0.47	<b>1966</b>	0.11	<b>1939</b>	0.04
<b>2019</b>	0.84	<b>1992</b>	0.46	<b>1965</b>	0.10	<b>1938</b>	0.05
<b>2018</b>	0.82	<b>1991</b>	0.45	<b>1964</b>	0.10	<b>1937</b>	0.05
<b>2017</b>	0.80	<b>1990</b>	0.43	<b>1963</b>	0.10	<b>1936</b>	0.04
<b>2016</b>	0.79	<b>1989</b>	0.41	<b>1962</b>	0.10	<b>1935</b>	0.04
<b>2015</b>	0.78	<b>1988</b>	0.39	<b>1961</b>	0.10	<b>1934</b>	0.04
<b>2014</b>	0.78	<b>1987</b>	0.37	<b>1960</b>	0.10	<b>1933</b>	0.04
<b>2013</b>	0.76	<b>1986</b>	0.36	<b>1959</b>	0.10	<b>1932</b>	0.04
<b>2012</b>	0.75	<b>1985</b>	0.35	<b>1958</b>	0.09	<b>1931</b>	0.05
<b>2011</b>	0.74	<b>1984</b>	0.34	<b>1957</b>	0.09	<b>1930</b>	0.05
<b>2010</b>	0.72	<b>1983</b>	0.33	<b>1956</b>	0.09	<b>1929</b>	0.06
<b>2009</b>	0.70	<b>1982</b>	0.32	<b>1955</b>	0.09	<b>1928</b>	0.06

DEPARTMENT OR BUILDING \_\_\_\_\_

[illegible]

# *Capital Assets*

## Additions to Capital Assets

- Procedures in place to gather and report capital asset purchases from current claims:
  - Capital Outlay Classification
  - Flagged by software – generates reports
  - Segregate Claims
  - Capital Asset Addition forms
- Internal controls in place to ensure procedures are followed

# *Capital Assets*

## Reductions to Capital Assets

- Procedures in place to gather and report reductions
  - Trade – ins (Capital asset addition forms)
  - Sale of assets (Capital asset disposal forms)
  - Salvage (Board Minutes)
  - Inventories
- Internal Controls in place to ensure procedures are followed

# *Capital Assets*

## Depreciation

- Allocates the deferred cost (capitalized amount) to the future accounting periods. This is based on the value of the asset (historical cost) over the useful life of the asset
- Example: Truck purchased for \$50,000 and estimated life is 5 years with no salvage value using straight line method
  - Capitalize at \$50,000
  - Deprecation:  $\$50,000 / 5 \text{ years}$  is \$10,000 per year

# *Capital Assets*

## Accumulated Depreciation

- Total Depreciation used for each asset
  - Will not report depreciation expense
  - Truck Example of \$50,000 acquisition cost and \$10,000 depreciation
    - Year 1 \$10,000
    - Year 2 \$20,000
    - Year 3 \$30,000
    - Year 4 \$40,000
    - Year 5 \$50,000
- Fully depreciated

# *Capital Assets*

## **Accumulated Depreciation Schedule**

- Schedule is a summary of accumulated depreciation by category for all assets in capital asset schedule that are being depreciated
- Beginning balance would tie to ending balance of prior year
- Additions represent the depreciation expense allocated for that year
- Reductions represent the accumulated depreciation for any assets that were disposed of
- Ending balance is the accumulated depreciation at year end for the capital asset schedule

# *Capital Assets*

## **Inventory of Assets**

- Complete every two years
  - Policy may be more stringent than two years
- Ensures additions and deletions on listing of assets are appropriately reflected



# *Keys to Avoiding Capital Asset Comments*

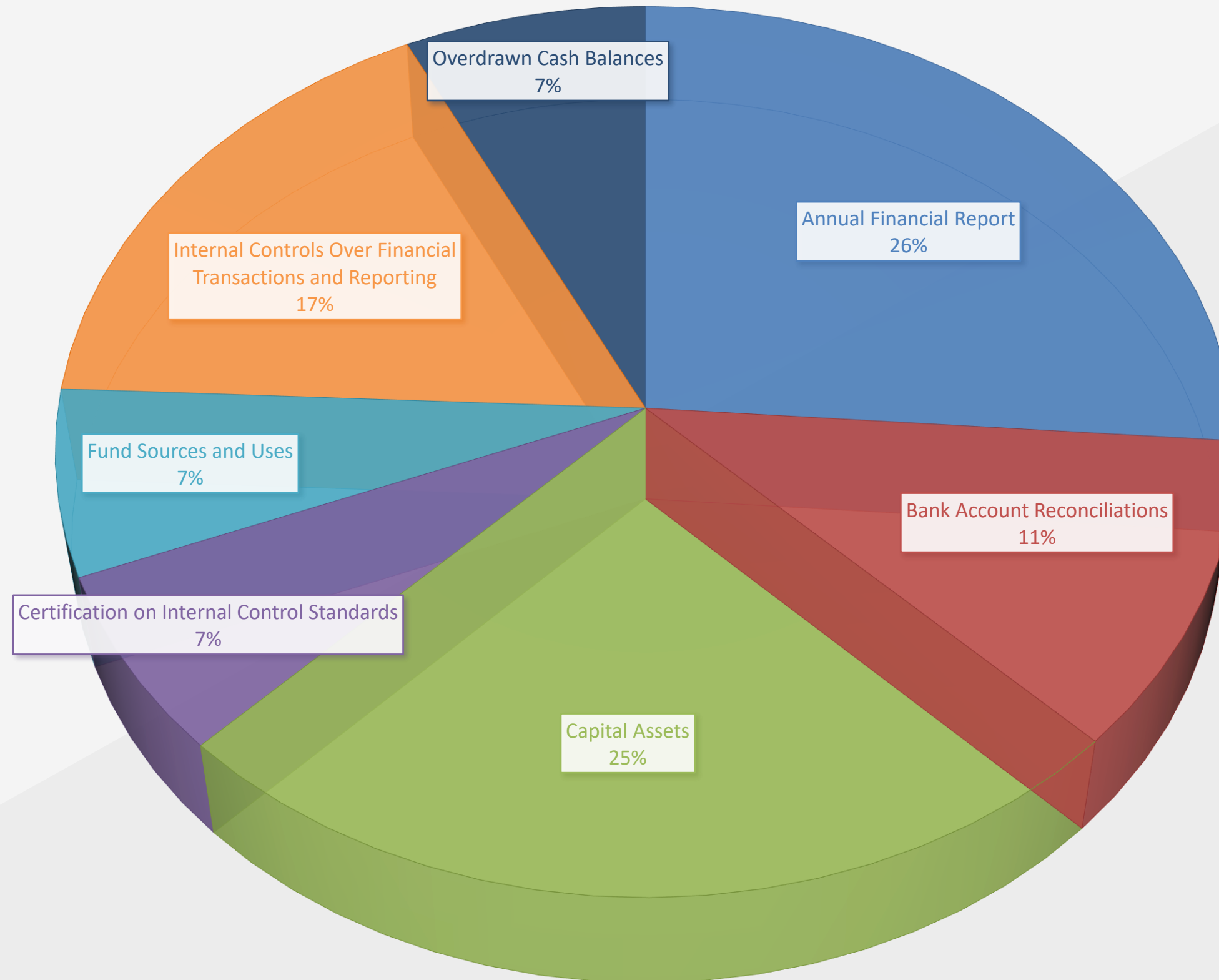


**Create  
Capitalization  
Policy**

**Create  
Listing of  
Capital Assets**

**Perform  
Inventory  
Every  
Two Years**

# 2024 Common Comments



# Questions?



## Government Technical Assistance & Compliance (GTAC) Directors



Beth Goss

&

Mitch Wilson



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