



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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MEMORANDUM

TO: All Civil Taxing Units
FROM: Tammy R. White, CPA, Deputy State Examiner
RE: Income Tax Distributions for Certified Shares
DATE: February 10, 2022

It has come to our attention that some units are not recording Local Income Tax (LIT) Certified Shares distributions into the General Fund upon receipt. The purpose of this memorandum is to remind civil taxing units of the Indiana State Board of Account's (SBOA) position that LIT Certified Shares be receipted into General Fund. For those civil taxing units that have budgeted LIT Certified Shares with plans on receipting into a fund other than General for the 2022 year, we will not take exception. We will expect that for years 2023 and beyond, LIT Certified Shares be receipted and accounted for in the General Fund.

Indiana Code 6-3.6-6-17 states that LIT Certified Shares can be used for any purpose of the civil taxing unit and does not provide for a designated fund.

The SBOA uniform compliance guidelines provide that LIT Certified Shares must be deposited into the General Fund of the unit, which would align with the principles of fund accounting.

While each unit of government may use its LIT Certified Shares for any purpose, the LIT Certified Shares must be accounted for in a manner that is consistent with fund accounting principles so that the users of the financial statements can have complete confidence in the integrity and accountability of public funds. The SBOA prescribed system of accounting authorized per IC 5-11-1-2 is based on fund accounting principles. According to the SBOA ***Accounting and Financial Reporting Regulation Manual***:

"Fund accounting enables governmental entities to easily monitor and report compliance with spending purposes (fund restrictions), spending limits (budget), and other fiscal accounting objectives. Fund accounting is an accounting system organized on the basis of funds. Each fund is considered to be a separate accounting entity . . .

The purpose of the funds maintained by a governmental entity is established from various sources and depends on the individual fund. Some funds are established and governed by state statute. The sources and uses of these funds are limited to what is authorized per the statute."

The General Fund is the fund used to account for and report all financial resources not accounted for and reported in another fund. **Government Auditing, Accounting, and Financial Reporting** (GAAFR) defines the General Fund as the fund used to account for all financial resources except those required to be accounted for in another fund. As the general operating fund of the unit, tax revenues and other receipts that are not allocated by law to another fund are accounted for in the General Fund.

We are aware that there were some issues in the past where statute restricted the General Fund from being used for certain purposes. Townships, for example, were not allowed to use the General Fund for fire protection due to the wording in the statute for the fire protection fund. This wording was changed in 2017 to allow the General Fund to be used for fire protection and so removed the concern that LIT Certified Shares deposited into General Fund could not be used for fire protection.

There are significant issues when depositing general use money in any fund other than the General Fund.

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. This allows the use of those special revenue sources to be transparent. When LIT Certified Shares are comingled with specific revenue sources, the identity of the specific revenue source is no longer evident, and as a result the ability to analyze the sufficiency of the specific revenue source may be skewed, the flexibility for the use of those funds may be lost, and noncompliance with statutory provisions may result.

For example, if LIT Certified Shares are placed into the Township Firefighting Fund established by IC 36-8-13-4, it may appear that the township levy (and other specified revenue sources) is in an amount sufficient to pay costs attributable to fire protection and emergency services, when it is not sufficient. If LIT Certified Shares are placed into the Motor Vehicle Highway (MVH) Fund, meaningful analysis as to whether distributions from the State Highway Account are sufficient would not be possible and the unit would not have the ability to move those funds out of MVH in the event the funds are needed elsewhere. In both of those examples, if the Certified Shares were placed and disbursed from the General Fund for fire protection or MVH, it would be clear from year to year how those purposes had been funded and the balance in the special revenue fund would be directly attributable to the special revenue funding source.

An additional example would be the deposit of LIT Certified Shares into the Rainy Day Fund. If LIT Certified Shares are placed directly into the Rainy Day Fund, the unit may exceed the statutory limitation on the amount which can be transferred from the General Fund to the Rainy Day Fund; in addition, the amount placed into the balance of Rainy Day Fund could not be used to reduce the actual or permissible levy of a unit as if it had been placed in the General Fund.

If there is a pledging of LIT Certified Shares receipts for debt purposes, a restrictive fund may be created to account for this financial activity.

A civil taxing unit may pledge its certified shares to the payment of bonds or to lease payments in accordance with IC 6-3.6-6-18. Each unit of government is responsible for budgeting LIT Certified Shares and should work together with its DLGF representative to arrive at the best possible outcome to meet the budgetary needs of the unit. If the unit has pledged its LIT Certified Shares to the payment of debt, the debt could be paid from the General Fund or the unit could establish a local debt service fund to account for the debt repayment.

Examples:

Scenario 1: The unit receives \$100,000 in LIT Certified Shares per month for a total of \$1,200,000 for the year. The unit has pledged certified shares to make the debt service payment on Bond "A," which is \$400,000 for the year; \$200,000 is payable in June and \$200,000 is payable in December. The unit budgeted the payment out of a Debt Service Fund for Bond "A." In this case, the unit will transfer \$400,000 in LIT Certified Shares from the General Fund to the Debt Service Fund for Bond "A." Payment will be made from the Debt Service Fund for Bond "A."

Scenario 2: The unit receives \$100,000 in LIT Certified Shares per month for a total of \$1,200,000 for the year. The unit has pledged certified shares to make the debt service payment on Bond "A," which is \$400,000 for the year; \$200,000 is payable in June and \$200,000 is payable in December. The unit budgeted the payment for Bond "A" out of the General Fund. Payment will be made from the General Fund for the debt service payment on Bond "A."

Again, the professional standards for fund accounting have been created specifically to accommodate the transparency and accountability that government strives to achieve for its constituents. For these reasons, it is important that all units of government deposit LIT Certified Shares into the General Fund to be budgeted and used for any lawful purpose of the unit for the years 2023 and beyond.

This memorandum will not affect the deposit of distributions in 2022.

For years 2022 and prior, the SBOA will not take audit exception to a unit of government following a DLGF budget order that includes LIT Certified Shares as revenue in a fund other than the General Fund.

No changes are required for Local Income Tax for Property Tax Relief, Economic Development, Public Safety, and Special Legislation as these revenues will continue to be accounted for in separate funds.

Questions regarding fund sources and uses should be directed the to the SBOA Directors for your political subdivision at (317) 232-2513.

SG/LR