

# LIBRARY BULLETIN

ISSUED BY STATE BOARD OF ACCOUNTS

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June 2024

## STATE BOARD OF ACCOUNT CONTACT INFORMATION

**SBOA Homepage:** [www.in.gov/sboa](http://www.in.gov/sboa)

*(for information specific to Libraries, select Political Subdivisions and then select Libraries)*

### **Government Technical Assistance & Compliance (GTAC) Directors:**

Beth Goss and Mitch Wilson

Email Address: [Libraries@sboa.in.gov](mailto:Libraries@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](mailto:gateway@sboa.in.gov) or [AnnualReports@sboa.in.gov](mailto:AnnualReports@sboa.in.gov)

*(either email address will take you to the helpdesk)*

**SBOA Communications:** [communications@sboa.in.gov](mailto:communications@sboa.in.gov)

### **2024 Indiana General Assembly – link for Indiana Code search:**

<https://iga.in.gov/laws/2024/ic/titles/1>

## UPCOMING TRAINING

Currently we do not have any training scheduled for this upcoming quarter. The previous quarter we presented at the Library Spring Workshop on May 23<sup>rd</sup>. Here is a link to our PowerPoint presentation: <https://www.in.gov/sboa/files/Library-Spring-Workshop-2024.pdf>

## CHANGES TO THE BULLETINS

The SBOA Bulletin is changing to provide more information related to upcoming training, a recap of questions received from the last quarter, and a review of frequent comments we have seen in our reports. We hope this will provide each unit with useful information to assist them in their day-to-day duties.

## PUBLIC WORKS PROJECTS

With warm weather here, we thought it would be a great time to cover all the various projects governmental units might be planning for!

Public work, noted in IC 36-1-12-2, means construction, reconstruction, alteration, or

renovation of a public building, airport facility, or other structure that is paid for out of a public fund or special assessment. Search the Indiana Code for the full description.

Here is a breakdown of procedures to follow based on the expected cost of the projects and links to the applicable Indiana Codes (IC):

- When a project is expected to cost at least \$150,000, the board shall comply with the procedures set forth in IC 36-1-12-4.
- Projects estimated to cost between \$50,000 and \$150,000, they shall invite quotes and follow procedures set forth in IC 36-1-12-4.7.
- Projects estimated to cost less than \$50,000 should follow procedures set forth in IC 36-1-12-5.

Additional information relating to the bidding process:

Advertisements for bids do not need to be detailed in their specifications of the job, material, or project under consideration. It is sufficient for the ad to state specification may be inspected in the office of the municipality.

The advertising must be in accordance with IC 5-3-1-2 (e) and the specifications must be clear, and subject to bidder's inspection. The advertisement should list the items which are to be purchased or contracted for but need not include the entire listing of component items.

The meeting for receiving bids must be open to the public, and all bids received must be made available to the public.

#### LIBRARY IMPROVEMENT RESERVE FUND (LIRF)

Recently we had inquiries from multiple libraries wanting to close out their LIRF fund. The LIRF fund is a statutory fund, so libraries would have to keep these funds. However, libraries could spend the fund down to zero and then not utilize the LIRF fund.

Another question posed was whether libraries could transfer these funds to their Rainy-Day Fund. Libraries are required to use the money in the LIRF for future capital expenses as described in IC 36-12-3-11 (a) (4). Therefore, these funds cannot be transferred to the Rainy-Day fund, since the ordinance establishing the Rainy-Day fund could have a broad list of allowable expenditures and not as narrow as the LIRF requirements.

#### ELECTRONIC PAYMENTS TO VENDORS

Indiana Code 36-12-3-16.5 covers the payment of claims via electronic transfer. Note that subdivision (c) requires a unit to utilize the normal claims process, even for electronic funds transactions. Among other limitations, this means that it is impermissible for a third party to “pull” money out of a unit’s bank account. Instead, the fiscal agent must initiate or direct the unit’s financial institution to disburse the funds.

## GET with GAAP

The GET with GAAP section of this Bulletin is provided to you by the GAAP Efficiency Team (GET) of the State Board of Accounts (SBOA). The guidance below applies only to those entities reporting on the GAAP, not regulatory, basis. If you have any questions about this information please contact Pam Barber ([PBarber@sboafe.IN.gov](mailto:PBarber@sboafe.IN.gov)) or Vicki Urbanik ([VUrbanikRandall@sboafe.IN.gov](mailto:VUrbanikRandall@sboafe.IN.gov))

### **Information Related to Previous LIT Guidance from SBOA Memorandum dated July 12, 2023**

We are issuing a change in guidance for preparation of your next GAAP financial statements. Complete SBOA guidance is below. Almost all of the July 12, 2023 Memorandum is unchanged by the information below. The only changes are contained within the text boxes. Therefore, if you are familiar with the Memorandum from last year regarding LIT reporting you will want to concentrate on the areas within the text boxes for the changes. These changes are minor and pertain to reporting LIT Receivable within the fund financial statements. Other reporting recommendations have not changed.

### **GAAP Reporting of Local Income Tax**

Unified Local Income Taxes (LIT) are derived tax revenues. Therefore, a receivable should be recognized in the period when the exchange transaction on which the tax is imposed occurs or when resources are received, whichever occurs first. Revenue net of estimated refunds and estimated uncollectible amounts, is recognized in the same period the receivable is recognized in accrual based financial statements (GASB Cod. N50.113). For modified accrual (governmental fund statements) revenue will be recognized when they become available and measurable. This means the Unified Local Income Taxes recognized as an asset and revenues in the current year are based on wages/income to the taxpayer from the current year.

The way the LIT statute is written and the GAAP standards that must be applied for asset and revenue recognition are difficult to align for this tax as the actual tax amount net of refunds and uncollectible amounts are not known at the time financial statements are prepared. As time passes, additional information about actual taxes imposed and collected continues to become available and can be used to adjust estimates. Therefore, it is important to determine what we know about the timing of state distributions to local governments for LIT as well as the estimated amounts of LIT.

One might think state distributions would be delayed until the tax imposed is collected and returns are processed by the State. However, that is not what is prescribed by Indiana Code. IC 6-3.6-3 requires the adopting body for LIT to adopt, increase, decrease, or rescind a tax or tax rate by ordinance. The timing of the ordinance passage determines the date of the imposition of the income tax and therefore, the date the asset and revenue should be included in the financial statements of the local government.

Based on IC 6-3.6-9-8, the State is distributing estimated LIT collections either current with the taxable transactions, when the effective date is January 1 of the following year, or within three months, when the effective date of the tax is October 1 of the current year. Per IC 6-3.6-9-16, the county shall allocate and distribute LIT to the appropriate entities upon receipt of each monthly distribution from the State. Therefore, other local governments are also receiving LIT current or within three months of imposition.

Each local government must use the information available to also determine the amount of assets and revenues appropriate to report as financial statements are prepared each year. The State provides much of the information you will find useful for calculating amounts for LIT journal entries and financial statement preparation.

We recommend the modified accrual statements recognize LIT revenue in the amount received during the year in monthly and supplemental distributions. Because of the language in GASB Cod. § N50.108, we believe the Asset recognition in the modified accrual statements would be the same as in the full accrual statement. Our recommendation for the calculation of the LIT Receivable amount is in the following paragraph and is the same for both the modified accrual and full accrual financial statements. Although the underlying derived tax transaction has occurred, revenue recognition in the modified accrual statements for the related LIT Receivable would only occur in these statements if the resources were also available, which we do not believe is the case with LIT. Therefore, the receivable would be posted as an asset with a corresponding deferred inflow of resources-unavailable revenue.

Our recommendation for the full accrual statements is for management to consider the supplemental distribution of LIT for the ensuing year. Because the supplemental distribution equals the amount of the unencumbered balance from two years prior that is determined to be in excess of 15% of the certified distribution minus any supplemental or special distributions that have not yet been accounted for in the last known balance of the county's trust account, you should also consider the amount that equals 15% of certified distributions in your estimations for booking the appropriate LIT receivable and additional revenue.

If you choose another methodology to estimate and book the LIT receivable, deferred inflows, and revenue in your financial statements, that methodology must have a reasonable basis and be supported by documentation that can be audited.