



Municipal Technical Advisory Service  
INSTITUTE *for* PUBLIC SERVICE

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## State of Tennessee Requirements

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Dear Reader:

The following document was created from the MTAS website ([mtas.tennessee.edu](https://www.mtas.tennessee.edu)). This website is maintained daily by MTAS staff and seeks to represent the most current information regarding issues relative to Tennessee municipal government.

We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with municipal government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other MTAS website material.

Sincerely,

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## State of Tennessee Requirements

**Reference Number:** MTAS-835

In 1987, the state legislature passed the Wastewater Facilities Act. T.C.A. § 68-221-1001 to 1015. This provides a method for the state to intervene in the financial affairs of any financially distressed, publicly owned wastewater facility. This act established the Water and Wastewater Finance Board (WWFB) to oversee financially distressed municipal wastewater systems. (Utility districts have a similar oversight board that covers their operations: the Utility Management Review Board, T.C.A. § 7-82-701 to 706.) In 1997 the Wastewater Facilities Act was amended to also include authority over financially distressed water systems that do not already have a combined fund with the sewer system.

Cities are required to have an annual independent audit of their financial records. Each of these audits is submitted by the auditor to the Tennessee Comptroller of the Treasury. Audits that show a net loss or negative net position are forwarded to the staff of the Wastewater Financing Board for further review and possible action if the system falls into one or more of the following situations:

- Two consecutive years of negative change in net position;
- Being in default on any long-term debt; or
- Deficit in net position in any one year.

City management will be asked to appear before the WWFB and submit a plan, for board approval, that will eliminate the deficits and operate the enterprise fund in a positive manner. The WWFB has established certain guidelines for the city to accomplish this:

- Deficit in net position — the WWFB may allow the city a period of time of up to 10 years to eliminate the deficit; or
- Two years consecutive negative changes in net position — the WWFB may allow the city a period of time of up to three years to begin operating with a positive change in net position.

In Tennessee, the state comptroller prescribes accounting standards and procedures. Some of the alternatives discussed in this manual exceed “recommended practices and procedures.” The comptroller has the final say over what’s acceptable in municipal accounting practices.

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