Administration

Dear Reader:

The following document was created from the MTAS website (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,

The University of Tennessee
Municipal Technical Advisory Service
1610 University Avenue
Knoxville, TN 37921-6741
865-974-0411 phone
865-974-0423 fax
www.mtas.tennessee.edu

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Administration

Reference Number:
MTAS-108

Most municipal charters contain some provisions about fiscal administration. However, some general laws have been enacted in this area. If these laws are more restrictive or comprehensive, they take precedence over charter provisions. For example, the general law requiring annual audits supersedes a private act requiring only biennial audits.

Budget, Appropriations, Publication Requirements

The Municipal Budget Law of 1982 applies to municipalities that do not have budget provisions in their charters requiring detailed estimates of proposed expenditures, expenditures for the preceding fiscal year, reasons for recommended departures, and estimates of anticipated revenue from all sources with comparative statements for the past, present, and next fiscal year.

Cities operating under general law charters and cities that do not have charter budget requirements, at least as detailed as the Municipal Budget Law of 1982 (T.C.A. §§ 6-56-201, *et seq.*), must publish their annual operating budget, comparisons of the proposed budget with the actual budget for the prior year, and estimated expenditures for the current year. This must include:

- Revenues and expenditures for the general, public works, general purpose school, and debt service funds;
- Revenue sources for each fund broken down by local, state, federal, and other sources;
- Expenditures for each fund listed separately by salaries and other costs;
- Beginning and ending fund balances for each fund; and
- The number of full-time equivalent employee positions for each fund.

Publication must be in a newspaper of general circulation no fewer than 10 days before the meeting at which the governing body will consider final passage of the budget.

Biennial Budgets

A municipality may propose and adopt a biennial budget if financial resources are sufficient to pay debt obligations and with approval by the office of the comptroller. T.C.A. § 9-21-403.

Appropriated Funds Required

A general law provides that "no person shall be entitled to have made available to them or otherwise be entitled to any program or any services ... unless funds remain available for such program or service from monies appropriated for that purpose by ... the appropriate governing body of a political subdivision".T.C.A. § 9-1-116. There are no exceptions to the rule that public funds in Tennessee may not be spent until a governing body has appropriated them.

Appropriations to Civic, Charitable, and Educational Organizations

Cities may make appropriations to charitable organizations and non-profit civic organizations (organizations operating under 501(c)(4) or 501(c)(6) of the Internal Revenue Code), such as chambers of commerce and industrial promotion agencies. The city must prescribe guidelines directing how agencies may use the money. The agencies must submit an annual report and audit to the city. Advance newspaper notice is required for an appropriation to a non-profit civic organization. Also, the state comptroller is required to issue regulations governing such appropriations. T.C.A. § 6-54-111.

Appropriations to nonprofit organizations other than charitable organizations may be made only after notices have been published in a newspaper of general circulation in the municipality of the intent to make an appropriation to a nonprofit, but not charitable, organization specifying the intended amount of the appropriation and the purposes for which the appropriation will be spent.

Municipalities are specifically authorized to donate public funds to public or tax-supported colleges and universities and even levy taxes for such donations. T.C.A. § 49-7-108.

The Tennessee Fire Service and Code Enforcement Academy may accept donations of property, services, and money from any public agency. T.C.A. § 68-102-205.

Loans to Other Entities

Cities may contract to make loans, grants, donations, and reimbursements to utility districts and other local governments for constructing public works. T.C.A. § 9-21-107. However, recent changes to the Wastewater Facilities Act do not allow the General Fund to make contributions or grants to a water, wastewater, or combined system.

Accounting System

Reference Number:
MTAS-116

T.C.A. § 9-2-102 requires the department of audit "... to prescribe a uniform system of bookkeeping ... in all state, county, and municipal offices." The uniform system for municipalities is prescribed in the Internal Control and Compliance Manual for Tennessee Municipalities (Comptroller of the Treasury, Division of Municipal Audit, June 2010, available on the comptroller's website).

A new Internal Control Manual was published in December, 2015. This manual is based on principles, as opposed to providing a detailed method of implementing internal controls. This is because the manual is based on the GAO Green Book, which is principles based as well. In addition, it would be physically impossible to develop a detailed internal control implementation. All cities are now required to have their own internal control policy based on the GAO Green Book.

Electronic Business Systems

The Uniform Electronic Transactions Act, T.C.A. §§ 47-10-101, *et seq.*, authorizes public officials, including those of municipalities and utility districts, to conduct business transactions by electronic means. Public officials may determine whether and to what extent they will send, accept, and rely on electronic records and electronic signatures.

Any municipal official who decides to implement an electronic business system that provides for sending and receiving electronic records that contain electronic signatures or authorizations must file a statement with the comptroller of the treasury at least 30 days before offering the service. The statement must contain:

- a description of the computer hardware and software to be used;
- a description of policies and procedures related to implementation of the system;
- documentation of the internal controls that will ensure the system's integrity;
- a description of the public official's personnel who will be responsible for implementing the system;
- a description of the types of records and transactions to be electronically communicated, as well as a description of the transaction and record authorization process, including a description of any electronic signature to be used;
- estimated cost of the system, including development and implementation costs; and
- the expected benefits and estimated cost savings, if any, of conducting business by electronic means.

Within 12 to 18 months after implementation of an electronic business system, a municipal official must provide a post-implementation review to the comptroller of the treasury. This review must contain:

- an assessment of the system by the official;
- responses from a survey of users of the system; and
- any recommendations for improvements to the system.

See open record implications of this statute.

Capital Asset Accounting System

Reference Number:
MTAS-623

GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets, requires that all intangible assets not specifically excluded be classified as capital assets. Like GASB Statement 34, this statement was phased in so that Phase 1 and 2 cities must retroactively report intangible assets acquired since June 30, 1980, except for those intangible assets that have indefinite useful lives and those internally generated. Retroactive reporting for Phase 3 cities is encouraged but not required.

If there are no factors that limit the useful life of an intangible asset, then it is considered to have an indefinite life and therefore not depreciated. Assets with indefinite useful lives and those internally generated do not have to be retroactively reported. This statement is effective for periods after June 15, 2009, so it first applied to fiscal year 2010 audit.

This publication provides direction in accounting for and properly reporting assets in governmental funds. Governmental accounting or fund accounting had been evolving slowly until the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis--for State and Local Governments*. Statement No. 34 (GASB 34) had been in development for 15 years before its 1999 release. It was not only quite comprehensive but burdensome for small governments.

One of the requirements for Tennessee local governments is to provide disclosures of all of their assets, both current and capital (long term). Governments are required to capitalize general infrastructure assets and report these assets in the government-wide statement of net position. The annual cost of using general infrastructure assets must be reported in the statement of activities as an operating expense (depreciation). Cities literally, have to keep two sets of books.

Prior to GASB 34, local governments were required to maintain a fixed asset accounting system (FAAS), but it was not part of the financial statements. Many cities did not adequately maintain a FAAS, which usually resulted in a "finding" in the annual audit. Under GASB 34, those findings result in either an adverse or a qualified auditor's opinion because those long-term assets are a part of the government-wide new financial statements.

GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets, requires that all intangible assets not specifically excluded be classified as capital assets. Intangible assets include easements, water rights, computer software and trademarks.

A municipality's capital assets are the tangible and intangible assets purchased or obtained through transactions or events. Capital assets are classified as buildings, equipment, improvements other than buildings, infrastructure, construction in progress, intangibles or land. In the private sector, these assets generally are referred to as property, plant and equipment.

History of Governmental Accounting

Reference Number:
MTAS-624

Governmental accounting has evolved formally for many years. The Governmental Finance Officers Association (GFOA) was founded in 1906 to actively support the advancement of governmental accounting, auditing and financial reporting. However, it was not until 1934 that GFOA established the National Committee on Municipal Accounting (NCMA), which began to promulgate accounting standards for governments.

In 1951, the National Committee on Governmental Accounting (NCGA), the successor body to the NCMA, issued Bulletin No. 14, *Municipal Accounting and Auditing*. This statement of governmental accounting standards found widespread acceptance and gave rise to the publication in 1968 by the GFOA of the first “blue book,” which provided authoritative guidance in generally accepted governmental accounting principles.

Accounting standards for private industry are set by the Financial Accounting Standards Board (FASB) and embraced by the American Institute of Certified Public Accountants (AICPA). When the AICPA issued its industry audit guide for governments in 1974, users found that some provisions were contrary to those set out by the GFOA’s “blue book.” In order to resolve these differences, in 1979 the NCGA issued its Statement 1 entitled *Governmental Accounting and Financial Reporting Principles*, which led to the uniform acceptance of Statement 1 as authoritative guidance for governmental or fund accounting.

The “blue book” has been revised several times and re-issued by the GFOA as *Governmental Accounting, Auditing and Financial Reporting*. It is now considered a non-authoritative guide for practitioners. However, it now describes how best to implement authoritative guidance.

The current authoritative body of governmental accounting is the Governmental Accounting Standards Board (GASB). This accounting and financial reporting standard-setting body was established in June 1984.

Governmental Funds-Measurement Focus

Reference Number:
MTAS-625

To understand the procedures for accounting for capital assets in government, one should first understand the model used for the general fund and the different model used for enterprise funds.

The traditional model of governmental accounting is based on two concepts: the measurement focus and the basis of accounting. Notes to financial statements in all governmental audits detail these two concepts as they apply to the government unit being audited.

The general fund operating statement measures the flow of the government’s current financial resources. Revenues in the form of taxes, fees and charges for services are recognized because they increase resources available for the budget year. Expenditure transactions are recognized on the operating statement because they decrease current financial resources available for spending in the budget year.

In the general fund, the focus is on current year revenues (resources) used to provide services through current year expenditures. This measurement focus is called the “current financial resources” focus simply because it recognizes transactions that increase or decrease the resources available for spending during the budget year. The general fund budget is based on this model.

In contrast to the current financial resources measurement focus, there is an economic resources measurement focus model that is used with enterprise funds. It is similar to the model used in private sector businesses. Examples of enterprise funds include water and sewer funds, natural gas funds and solid waste funds. These funds are not as concerned with available resources as they are with changes in net position (total assets minus total liabilities). Operating statements for these funds recognize transactions that increase or decrease the funds’ total economic resources during the fiscal year.

This boils down to some significant accounting differences between the annual operating statements (income statements) produced by the two measurement focus models. The economic resources measurement focus model for enterprise funds does not report the issuance of debt in its operating statement. When debt (liability) is issued, an offsetting cash (asset) amount is received resulting in no change to net assets. With the current financial resources measurement focus of the general fund, the issuance of debt increases current resources available and, therefore, is recorded on the operating statement as an Other Financing Source.

Principal debt repayment is not shown on the operating statement of the enterprise fund. The principal portion of debt repayment does not change net positon because the reduction in the amount of outstanding debt (liability) is offset by a reduction in cash (asset). In the general fund, a principal repayment is a decrease in current financial resources (decrease in assets) and is shown as an expenditure on the operating statement.

Spending for capital items does not change net position because cash is reduced (or debt is incurred) while another asset is increased by an offsetting amount. Hence, there is no recognition in the enterprise fund operating statement for acquiring assets. However, the same expenditure in the general fund is a reduction in cash (current resource) and is recognized in the general fund operating statement as an expenditure.

Depreciation is used to measure the degree to which an asset is used up over time and is shown on the operating statement of the enterprise fund. It is a non-cash expense derived by dividing the cost of an asset by its anticipated length of service. Depreciation does not affect the current financial resources of the general fund and, therefore, is not shown on its operating statement.

Now, under GASB 34, there are two financial presentations of the general fund in the annual financial report (audit), two balance sheets and two income statements. The difference in the two methods is reflected in the method of accounting for long-term assets and liabilities. Prior to GASB 34, under the general fund model all long-term assets were maintained “off the books” in something called a “general fixed asset account group.” Likewise, long-term liabilities were recorded in a separate account group called “general long-term debt account group.” These account groups were custodial in nature and not part of the audited financial statements.

Under GASB 34, a new *government-wide* financial report was created to convert the general fund current resources measurement to the economic resources measurement. Basically, this means adding the long-term assets and liabilities of the local government to the current items, thereby creating new financial reports.

Since the traditional general fund current financial resources focus records only current revenues and expenditures, the balance sheet for these government funds does not include a provision for long-term assets or liabilities.

General fund expenditures for land, equipment, roads, buildings, and infrastructure are recorded simply as “capital outlay” expenditures. This is in agreement with the budget process. Conversely, payments for these items in an enterprise fund would be capitalized as land, equipment or other capital assets.

Under GASB 34, local governments now capture capital outlays in the capital asset accounting system (CAAS). This is not a fund, nor is it the old and very limited general fixed asset account group. It is a permanent addition to the financial records that enables tracking of capital assets. This long- term data is used in the government-wide financial reports.

Having two completely different financial statements for the general fund is confusing. A reconciliation must be included in the financial statements that shows how the governmental reports are related to the government-wide statements of net position and statement of activities.

Basis of Accounting

Reference Number:
MTAS-626

There are two types, or bases, of accounting: cash and accrual. The cash basis is used by individuals and small businesses. Cash accounting records only cash in and cash out. It is limited in that some financial events would not show up under cash basis accounting. Tennessee cities and utilities use accrual accounting of which there are two types: accrual and modified accrual.

At the fund level of reporting, the general fund uses the modified accrual basis method of accounting. The “modification” is primarily in the recognition of revenue. It’s all about the budget at the general fund level, and only money available during the budget year can be booked as revenue.

General fund revenues are recognized only when they are available to liquidate liabilities of the budget year. Expenditures should be recognized in the accounting period in which the liability is incurred. The main reason for this is that most city budgets are balanced with property taxes. It is very important to tie the property tax rate to the service being provided during the budget year.

The private sector, enterprise funds, and the government-wide financial reports use the accrual basis of accounting. Revenues are recognized when they are earned and measurable, and expenses are recognized when a liability is incurred. Because enterprise fund revenue is generated from users (not taxes), there is an implicit understanding that rates will increase as necessary.

Purpose and Benefits of a Capital Asset Accounting System

Reference Number:

MTAS-627

Adequate capital asset records must provide:

- A simple method of positively identifying each piece of equipment; and
- A method of accounting for each piece (or group) of property.

The records system should be simple and flexible, yet it also must provide essential information to protect city property. The capital asset accounting system should place responsibility for custody and proper use of a distinct capital asset with a specific individual.

Another benefit derived from a CAAS includes providing a centralized source of information, such as price, source of supply, maintenance costs (optional), useful life, annual depreciation, assigned department, location and anything else necessary for accountability. This captures warranty information, helps determine the amount of property insurance needed and forms the basis of cost accounting records. The CAAS must provide detailed and summarized information for inclusion in the city's financial report by department and by fund.

Classifying Capital Assets

Reference Number:
MTAS-628

To be classified as a capital asset, a specific item must have a life longer than one year and have significant value.

What constitutes significant value varies depending on the size of the city and the class of capital asset. The threshold for capitalization can vary among types of capital assets. A city may classify equipment costing more than $1,000 as capital while using a $5,000 minimum limit for buildings. Your threshold could be set at the limit at which bids are required before purchase. Cities may exercise the option to include as a capital asset any borderline items over which it wishes to maintain accounting control. Groups of items that may not qualify individually can be capitalized when the total purchase exceeds your threshold.

The municipal governing body should set the capitalization threshold for all classes of capital assets via resolution or ordinance.

A cost test may be applied to aggregates of units of similar type or purpose rather than to the unit itself. Whether an expenditure is classified as an operating expense or capitalized often is determined by its relationship to some existing asset. The amounts specified above are rather arbitrary. Your city could establish threshold values for capital asset accounting different than those suggested.

The following classifications for capital assets are recommended for purposes of accounting and financial statement presentation:

- **Land** includes investment in real estate other than structures, improvements and land acquired and used for street and road purposes. All land, as defined above, should be capitalized without regard to significant value. Include legal and surveying fees, damage payments and site preparation costs, including removal of old buildings, etc. Receipts from the sale of salvage should be credited against the land cost.
- **Building** includes costs incurred directly to put the building into its intended state of use, including construction or purchase price, architects' fees, accident or injury costs, payments for damage and insurance during construction. The costs should be reduced for discounts, insurance recoveries and other credits.
- **Improvements Other than Buildings** are costs incurred directly to place the improvement into its intended state of use. It includes storage tanks, parking areas, landscaping, connector driveways, traffic lights, parking meters, and other improvements.
- **Equipment** includes moveable personal property such as furniture, machines, tools and vehicles. The price should include the total purchase cost before any trade-in allowance minus any discounts. It also should include other costs required to place the equipment in its intended state of operation, such as dealer add-ons or modifications.
- **Infrastructure Assets** include roads, bridges and tunnels. Before GASB 34, these items were not considered capital assets. During implementation of GASB 34, many cities were required to capitalize major infrastructure items acquired since 1980. Other cities picked up infrastructure assets prospectively. Infrastructure assets are classified into networks and subsystems of networks. For example, city streets may be classed as a network, while bridges would be a subsystem.
- **Construction Work in Progress** represents a temporary accumulation of labor, materials, equipment and overhead costs (excluding administrative overhead) of a construction project. Upon completion of the work, the total cost is transferred to one or more of the above classes of capital assets.

- **Intangibles** include costs incurred to acquire assets such as patents, trademarks, water rights, road easements, timber rights and computer software. GASB Statement No. 51 had a phase-in similar to GASB 34. Phase 1 and 2 cities must go back to 1981 and pick up intangible assets that were internally generated and those that have a definite life due to contractual or legal limitations. Intangible assets with an indefinite useful life may be retroactively reported. Phase 3 cities do not have to retroactively report any intangible asset.

Establishing a Capital Asset Accounting System

Reference Number:
MTAS-629

In most small and medium-size cities, establishing a CAAS is not a major undertaking. However, planning, direction and cooperation are needed to achieve satisfactory results.

The following steps are suggested to establish the initial capital asset record:

- Assign one responsible individual the task and authority for establishing capital asset records.
- Take an initial physical inventory to collect all essential information. Description, assigned department, location, model number, serial number, manufacturer, size, and capacity are a few of the suggested identifying characteristics of each asset.
- Establish a value for all capital assets. Use historical cost records if available, or estimate value. Documentation is important.
- Complete and file an individual property record card or computer file on each capital asset.
- Label or tag capital assets. Adhesive metal tags or labels are convenient for marking each asset.

Designating a Responsible Official

Reference Number:
MTAS-630

We recommend that the office of the chief fiscal officer be responsible for the CAAS because this office keeps general ledger control accounts and many of the source documents used to process and file property information. The chief fiscal officer, or deputy, acting as property accounting officer, should control the identification of equipment, detailed records, physical inventory planning, entries in the books of account and report preparation. Centralizing this responsibility results in a more efficient and accurate system than maintaining it in individual departments. The official assigned to establish the CAAS will need the cooperation and assistance of all department heads during system establishment, annual inventories, and on other occasions.

Initial Inventory

Reference Number:
MTAS-632

The next step in establishing the CAAS is taking a physical inventory and preparing the initial database. Make every effort to obtain a complete record of all capital assets owned by the city. The chief administrative officer should inform all department heads and agencies that capital asset controls have been established and announce the person who is responsible for them. Each department should designate a person to assist in taking inventory for that department. The city’s size should determine if a formal meeting of department heads is required.

Valuing Capital Assets

Reference Number:
MTAS-633

After conducting and reducing to paper a complete physical inventory, the next step is to assign a dollar value to each capital asset identified. Where possible, capital assets should be recorded at historical cost. While this step can be time consuming, actual costs usually can be found through searching prior years’ financial records and source documents. The objective is to determine the initial investment, not the present market or replacement value. If you cannot determine cost, the following alternatives can be used, in this order, to determine the value of capital assets:

1. Estimated market value at the time of purchase or construction; or
2. Fair market value (or appraised value) at the time when establishing the capital asset records.

During GASB Statement 34 implementation, Phase 1 and Phase 2 cities had to go back to 1981 to pick up infrastructure assets. Phase 3 cities — those with less than $10 million in revenues recorded in their fiscal year 1999 audit — simply picked up new infrastructure from the date of implementation. GASB Statement No. 51 had the identical implementation phase in for intangible assets as used for GASB Statement No. 34. If no historical records exist or fair market value cannot be determined, a city could take current replacement costs and deflate the amount using a pertinent index such as the Consumer Price Index. If no better records exist, a city could hire an expert to estimate cost. Finance personnel could consult an external auditor during this process to determine if their cost data are acceptable for financial statement presentation.

Individual Property Records and Filing System

Reference Number:
MTAS-634

A subsidiary ledger card system should be adequate for small- and medium-size cities. Cities with computer capabilities probably will want to computerize their CAAS records. A separate card should be prepared for each unit of property (any item that can be readily identified and accounted for individually or any group of items, such as chairs, purchased at the same time).

This record of individual properties constitutes the subsidiary ledger. The total of the amounts shown on the subsidiary ledger cards corresponds to the control totals for the capital assets.

The following information should be on each individual property card:

- Asset number, including the class code;
- Sequence or payment voucher number;
- Date of acquisition;
- Name and address of vendor;
- Abbreviated description;
- Department, division and unit charged with custody;
- Location;
- Cost;
- Fund and department from which purchased;
- Method of acquisition;
- Estimated life;
- Date, method, and authorization for disposition; and
- Depreciation method and annual depreciation expense.

Once information has been entered on the asset ledger card, the next step is to develop a filing system to provide controls. Group the cards first by department. In the case of equipment, this usually amounts to grouping by location. Within each department or location, arrange the cards according to the classification of capital asset (i.e., land, building, infrastructure). Further subdivisions may be advisable if justified by the number of cards. For example, equipment could be divided into automotive, construction, office, etc.

Before completing the property card, assign and attach an individual asset number to each asset. This number should appear on the property card. Assigning each item a permanent number provides the necessary link between asset and property record card.

There are a number of adequate numbering systems for recording capital assets. A simple, flexible system might be a numerical sequence code system, with an alpha prefix. The alpha prefix classifies the asset according to the seven classes recommended for accounting and statement presentation purposes (L: land, B: building, I: infrastructure, O: improvements other than building, E: equipment, N: intangibles and C: construction in progress). This code numbering system might also identify the department and asset number.

Proper Marking of Capital Assets

Reference Number:
MTAS-635

Regardless of the code system you adopt, you should assign individual asset numbers and permanently affix them to each asset. You can attach the identification number to the asset through labels, tags, decals, epoxy paint or other appropriate method. Attach the number in a conspicuous place where it will not be worn or knocked off. Try to standardize the location.

It may not be practical to place a number on some items. In these cases, assign numbers, and indicate on the cards that the number is not present.

Maintaining a Capital Asset Accounting System

Reference Number:
MTAS-637

Once you establish a CAAS, proper maintenance is imperative. All accounting systems require current and accurate information to be meaningful. The best capital asset records can quickly become outdated if they are not maintained. Conversely, the most elementary records will become more accurate if properly maintained.

In small cities it may be sufficient to update the capital asset records at the close of each fiscal year. Large cities may require monthly updates.

We suggest that the person paying or approving invoices prepare a preliminary list of all items to be accounted for in the CAAS. Establish definite accounting procedures to ensure proper recording of asset purchases, sales, transfers and retirements.

Sources of Cost Information

Reference Number:
MTAS-638

The obvious source of information about capital assets are vendors' invoices or contracts. Another source of information are minutes from past governing body meetings. If historical records are unavailable, use a replacement value and deinflate that amount to the original purchase date. In some cases, using an expert or appraiser may be acceptable to arrive at an estimated cost.

Close cooperation with the property accounting officer is required in cities where a purchasing agent handles surplus property sales, interdepartmental transfers of equipment, or retirements.

Where department heads control the purchase, movement, and disposal of assets, you should design procedures and reports to give the property accounting officer prompt notice of any changes affecting capital assets.

Disposing of Capital Assets

Reference Number:
MTAS-640

Capital assets may be sold, lost, junked or traded for new assets. Regardless of the manner of disposition or the amount of proceeds, remove the asset from the CAAS at its recorded value.

The capital asset card should show clearly the method of disposal and, if sold, the amount of money received.

In order to furnish necessary information on fixed asset changes, those responsible should fill out a form such as the one found later in this section, and transmit it immediately to the property officer.

Cost Subsequent to Acquisition

Reference Number:
MTAS-646

Maintenance is an expenditure that neither materially adds to the value of property nor appreciably prolongs its life. Maintenance keeps the property in ordinary efficient operating condition. Maintenance costs do not add value and should not be recorded in the CAAS. Paving or resurfacing roads is an expense while construction of new roads would be recorded as infrastructure.

Betterment is the replacement of a unit of an existing asset by an improved or superior unit, usually resulting in a more productive, efficient or longer-lived asset. Significant betterments are capital assets and should be added to the value of the property improved on the CAAS.

Before recording the cost of additions to capital assets, determine that the expenditure has bettered the asset. Analyze expenditures and add the part that bettered the asset to the value of the asset. Treat the part that only restored the asset to its former operation as a current expense.

Physical Inventory

Reference Number:
MTAS-639

To ensure that the system is functioning as intended, the city should initially take a complete inventory of capital assets every three or four months. The inventory should agree with the records maintained in the CAAS.

After determining that the system is operating properly, an annual physical inventory (coinciding with the end of the city's fiscal year) should be sufficient. In the interest of internal control, the property accounting officer should check inventories randomly and unannounced.

We recommend that you require strict accountability for the use and care of capital assets. Make an investigation of any shortages or overages in cooperation with the department involved.

Frequently such conditions are due to the lag in recording acquisitions, transfers, and dispositions. Report any unexplained shortage to the head administrative or chief fiscal officer. Make adequate written explanation of all items accounted for and be available for any administrative or legislative inquiry regarding discrepancies.

It will simplify taking inventories if the property accounting officer provides a current listing, in numerical order, of the equipment charged to each department. This list should provide space for checking each item present, noting exceptions and certification.

Sample Forms for Capital Asset Accounting Systems

Reference Number:
MTAS-647

Sample forms below.

Form - Capital Asset Accounting Record (Ledger Card)

Reference Number:
MTAS-649

The following explanations are offered to assist with completing ledger cards.

Accumulated Capital Asset Amount: Include in this amount the initial cost plus betterments to arrive at total investment cost.

Authority: Name of the person, board or council authorizing disposal of the asset.

How and From Whom Acquired: The “how” should indicate whether the asset was acquired through condemnation, as a gift, etc.

Method of Price Evaluation: Indicate how the price of the asset was determined. If other than cost, the name of the person making the evaluation should appear on the next line.

Other Comments: Should be used to report anything unusual or unique about this asset.

Property Number: This refers to the CAAS number assigned to this particular capital asset. It should be noted if this number has not been affixed to the asset.

Reference: This space should be used to indicate the source of the authority, such as minute book number and page number.

Source of Funds: This refers to the fund financing the asset, as well as whether by rental, purchase, etc.

Tax Map Reference: For counties in which the reappraisal program has been completed, this information can be obtained from the tax assessor.

Form - Capital Asset Disposal Record

Reference Number:
MTAS-644

Sample Resolution to Set Threshold for Capitalization

Reference Number:
MTAS-651

Certifications & Requirements

Reference Number:
MTAS-117

See the sections below for more information.

Certified Municipal Finance Officer

Reference Number:
MTAS-121

The Municipal Finance Officer Certification and Education Act of 2007 require each municipality to have in its employ at least one certified municipal finance officer (CMFO) or employ a qualified exempt individual who meets the exemption criteria set forth in the law.

A municipality with $500,000 or less in gross revenues for all funds, including utilities but excluding one- time, non-recurring grants, **and** with debt totaling $500,000 or less in the immediately preceding fiscal year may designate a city employee as the individual who has financial oversight over city operations. That employee must earn at least 24 hours of continuing professional education which complies with CMFO guidelines each calendar year. The municipality should designate an employee who has knowledge of day to day operations or hire a CMFO or qualified individual who is exempt from CMFO education and certification.

MTAS, in conjunction with the comptroller, develops the curriculum and provides the training and testing leading to the CMFO designation. The program includes at least 80 hours of course and lab work in government environment, auditing and internal controls, government accounting, budgeting, debt administration, cash and investment management, strategic planning and capital improvement plans, pensions and benefits administration and risk management, and procurement and enterprise resource planning systems.

A candidate must be at least 18 years of age and a high school graduate or the equivalent to apply for the CMFO designation. A candidate shall not have been convicted of any felony or any lesser crime involving theft, fraud, or other crimes of dishonesty under the laws of this state, the United States, or any other state or county if the acts involved would have been considered a crime under those laws. The candidate shall not engage in any conduct reflecting adversely upon the candidate's fitness to perform services while certified as a CMFO. Each candidate must demonstrate proficiency in the subject matter for each course to receive the designation. A candidate may choose to take the examination instead of attending a class except for the course on government environment, which is mandatory.

To maintain certification, a CMFO, must earn at least 24 continuing professional education (CPEs) hours per year, at least 16 must be classified as financial per CMFO categories. Up to 24 CPEs may be carried over per year. Other designated financial oversight employees must also abide by these CPE rules and all individuals must file electronic reports with the Comptroller's Office annually.

The following individuals are exempt from the requirements leading to the CMFO designation, but must comply with CPE requirements:

- An individual designated as a certified government finance manager (CGFM) by the Association of Government Accountants.
- An individual designated as a certified public finance officer (CPFO) by the Government Finance Officers Association.
- An individual licensed as a certified public accountant (CPA) by the state board of accountancy and in active status and who has a minimum of five years of primarily governmental experience with at least three of those years in Tennessee.

An individual working as a municipal finance officer with financial oversight not meeting the exemption requirements may submit to the comptroller of the treasury a request for exemption from the CMFO educational requirements.

All these individuals must send proof of exemption to the comptroller.

When a municipality must replace a CMFO, the person hired must be exempt or must achieve the designation within two years of being hired.

A municipality that contumaciously refuses to comply with the requirement that it have a CMFO in its employ is subject to a penalty of up to a 15% reduction in annual state sales tax revenue. Any revenue withheld will be held in reserve at the department of revenue. Upon compliance the funds will be returned to the municipality. T.C.A. §§ 6-56-401, *et seq.*

Financial Oversight Duties of a Certified Municipal Finance Officer (CMFO)

Reference Number:
MTAS-3005

No definition is given for the terms ‘oversight responsibilities’ or ‘financial oversight’ in the law. This narrative is to assist cities in determining and defining what is needed and expected from a CMFO employed either full-time or part-time. If a CMFO works for more than one city they must be bonded by EACH city. **It is important to note** the governing body has the responsibility to set exactly what they will require from the CMFO, and this narrative is intended to note minimum financial procedures that should be implemented by any city and overseen by the CMFO. The individual taking responsibility for financial oversight must be comfortable they are performing enough work to take responsibility for the city’s financial condition and activities.

City Clerk & Recorder Certification

Reference Number:
MTAS-122

In 1994, Chapter 648 of Public Acts of 1994 added a law that required municipal clerks and recorders to become certified by completing 100 hours of education. The legislation also required that the certification be maintained by obtaining 18 hours of continuing education every three years. This law can be found in *Tennessee Code Annotated* (T.C.A.) § 6-54-120, and the accompanying regulations can be found in the Secretary of State’s Rules and Regulations 1360-06-01.

Who Must Comply?
Any municipality with a population of 1,500 or greater (according to the 1990 or any subsequent federal census) that

employs an officer or employee responsible for the duties of a municipal clerk or recorder -- taking and preserving minutes, serving as custodian of records, providing and certifying copies, etc. -- must have at least one certified person. Of course, a municipality may have more than one certified clerk or recorder. All such employees who were serving when the law went into effect had until July 1, 1998, to become certified. Any clerk or recorder hired after the law went into effect must become certified within four years.

Are There Any Exceptions?
The exceptions are:

- Any clerk or recorder in a municipality of less than 1,500 population;
- Any municipal clerk or recorder who is licensed (and required to maintain the license) to practice law in the state of Tennessee;
- Any municipal clerk or recorder who is a certified public accountant with a current certificate issued by the state board of accountancy in Tennessee; and
- Any appointed city manager or administrator who possesses a Master of Arts degree in public administration.

Also exempt from the initial requirement is any person who has served as both a city judge and city recorder for at least 25 years. Notwithstanding these exceptions, any city or town may, by ordinance, require the clerk or recorder to obtain certification, even if it is exempted under the population requirements (fewer than 1,500 residents).

What Does It Take to Become Certified?
To be certified, a person must either obtain a certificate from the International Institute of Municipal Clerks (IIMC) or complete a minimum of 100 credit hours of applicable education.

What Does It Take to Retain Certification?
Those who are already certified must attend a minimum of 18 hours of continuing education courses every three years.

How Do I Earn the Credit Hours?

- Receive 25 credit hours toward initial certification if you have an Associate of Arts or Associate of Science degree.
- Receive 50 hours toward initial certification if you have a Bachelor of Arts or Bachelor of Science degree. (You can receive the 50 hours credit only one time, even if you hold more than one degree.)
- Attend the Certified Municipal Clerk Institute that is coordinated by the Tennessee Association of Municipal Clerks and Recorders (TAMCAR). The institute lasts two and one-half days and will give you 17.5 credit hours. Institutes are offered each spring and fall, and institute scholarships are available when local funding limitations or policies might otherwise prevent participation.
- Attend the Academy for Advanced Education that is coordinated by TAMCAR. The academy is offered each fall in conjunction with the Institute, and academy scholarships are available when local funding limitations or policies might otherwise prevent participation.
- Attend the International Institute of Municipal Clerks annual conference that is held every year in May.
- Attend Municipal Administration Program training classes offered by the University of Tennessee’s Municipal Technical Advisory Service (MTAS) and receive four hours credit per half-day class. Courses are offered periodically in locations across the state.
- Attend Certified Municipal Finance Officer classes.
- Attend seminars conducted by the TML and Tennessee Municipal League Risk Management Pool.
- Attend the Local Government Leadership Program offered by the University of Tennessee’s Institute for Public Service (IPS) and receive 12 hours credit for the three-day program.
- Attend job-related seminars offered by private organizations. (Credit hours may vary.)
- Complete online self-teaching computer programs as approved by the secretary of state. (Credit hours may vary.)

How Do I Apply for Credit Hours?
Whether you are applying for the initial certificate or continuing education credits, you should contact the Division of Business Services for an application. Request form number SS-4507, appropriately titled "Application for Certification of Municipal Clerks and Recorders and Continuing Education Credit." The application is also available at https://www.sos.tn.gov/products/business-services/municipal-clerk-and-recorders-certification-and-continuing-education [1]. You can reach the division at:

312 Rosa L. Parks Avenue
3rd Floor, Snodgrass Tower
Nashville, TN 37243-1102
Phone: (615) 741-2286
Fax: (615) 741-7310
E-mail: business.services@tn.gov [2]

For more information contact your MTAS municipal management consultant or:

International Institute of Municipal Clerks
8331 Utica Avenue, Suite 200
Rancho Cucamonga, CA 91730
Phone: (909) 944-4162 or (800) 251-1639
Fax: (909) 944-8545
E-mail: hq@iimc.com [3]
Website: http://www.iimc.com [4]

Municipal Technical Advisory Service
Honna Rogers, TAMCAR Institute Director
Political Science & Public Service
Dept. 6356, Pfeiffer 302
Chattanooga, TN 37403
Phone: (423) 425-4239
E-mail: honna.rogers@tennessee.edu [5]
Website: http://www.mtas.tennessee.edu [6]

Tennessee Association of Municipal Clerks and Recorders (TAMCAR)
Website: http://www.tamcar.org [7]

Fund Balance

Reference Number:
MTAS-118

The Governmental Accounting Standards Board (GASB) issued Statement 54: Fund Balance Reporting and Governmental Fund Type Definitions. This standard was effective for periods beginning after June 15, 2010, which means fiscal year 6/30/11.

The statement raised several issues related to the way cities defined governmental funds, mainly special revenue funds, and the classification of fund balance in financial reports. Fund balance is only used in the governmental fund types:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Projects Funds
- Permanent Funds

Proprietary funds and internal service funds use the term “net position” to describe the equity in the funds. That terminology changed with the implementation of GASB 63. Consequently, the changes resulting from GASB 54 did not affect fund types other than governmental fund types listed above.

Fund Balance Reporting

Reference Number:
MTAS-577

Governmental accounting standards now require the reporting of five classifications of fund balance.

Non-spendable
This classification of fund balance includes amounts that due to their nature cannot be spent, i.e. inventory. Amounts that legally or contractually cannot be spent also are required to be classified as non-spendable. An example might include the corpus or principal in a permanent fund that is legally required to remain intact.

Restricted
Amounts required to be classified as restricted result from restrictions placed on their use by:

- Imposed by law through constitutional provisions or enabling legislation.
- External enforceable legal restrictions that are imposed by creditors, grantors, contributors, or laws and regulations of other governments.

Examples of restricted fund balance amounts include unspent grant funds, debt covenants and gasoline tax revenue for street purposes.

Committed
Amounts defined as committed arise from self-imposed constraints put on the use of the funds by the government’s highest level of authority, which is the governing body. The commitment must be made by the highest formal action (ordinance) and the action must be taken before the end of the fiscal year. An example might include the passing of an ordinance to

commit $20,000 for upgrading the city's computer system.

Assigned
Amounts defined as assigned arise from intentions of the government to use the funds for a specific purpose. This action may be taken by the highest level of authority or a designated body (committee) or an individual (city manager or mayor). Assignment of fund balance is a less formal action than required for committed funds and the action may be taken after the end of the fiscal year.

Unassigned
The amounts in the unassigned fund balance classification represent those funds that are left for spending after funds earmarked for specified purposes have been otherwise classified. The General Fund is the only fund that will record a positive unassigned fund balance. The nature of other fund types automatically makes those resources restricted, committed or assigned. The only situation where other types of funds would report amounts in the unassigned fund balance category is if the balance is negative. This might occur if the fund spends more resources than it has available in restricted, committed or assigned fund balance.

Note: the term "unrestricted fund balance" used in publications refers collectively to the three categories of committed, assigned and unassigned.

Fund Balance Policy

Reference Number:
MTAS-578

The GASB statement 54 requires that governments report certain policies and procedures in the footnotes to the audited financial statements. Does this mean cities have to adopt a formal fund balance policy? No, but adopting a fund balance policy is a good idea and is viewed favorably by credit rating agencies. Regardless of whether governments adopt a formal fund balance policy the following information must be included in the audited financial statements:

1. For committed fund balance:

a. What is the government's highest level of decision-making authority, i.e. full board?
b. What is the formal action required to the taken to commit resources, i.e. an ordinance.

2. For assigned fund balance:

a. The body (committee) or individual (mayor, city manager or finance director) authorized to assign resources for a specific purpose.
b. The policy established by the governing body that gives that authorization.

3. What order will fund balances be utilized?

a.The government must state whether restricted or unrestricted resources will be used when expenditures are incurred where either may be used.
b. Disclosure must also be made regarding whether committed, assigned and unassigned fund balances are considered to be used when the expenditure incurred is for the purpose of those classifications.

4. The purpose of each special revenue fund, identifying each specific revenue stream that is committed or restricted.

5. Detail of the nature of the non-spendable, restricted, committed or assigned fund balance amounts if not presented on the face of the balance sheet.

When developing a fund balance policy certain elements should be considered. The policy should include the above required disclosures as detailed in items 1-3, the minimum unrestricted fund balance requirement for the general fund and the policy for use and replenishment of stabilization (rainy day) fund resources if the government has one. The Government Finance Officers Association recommends that governments keep at least two months of operating revenues or expenditures in the general fund balance. Maintaining a comfortable cushion is crucial to good financial management because it helps governments compensate for unexpected events. Following is a link to the GFOA best practice on fund balance guidelines: http://www.gfoa.org/fund-balance-guidelines-general-fund [8]

Defining Governmental Funds

Reference Number:
MTAS-579

The definitions of special revenue, capital projects and debt services funds were changed or clarified in this accounting standard. A special revenue fund can only be used if a significant amount of revenue supporting the activities is restricted or committed for that specific purpose (other than debt service or capital projects). Restrictions must be imposed by an external source such as the state or federal government. A common example is the state street aid fund, which is supported by revenues restricted by state law to be spent on specific street-related expenditures. The restricted source of revenue has to be considered a substantial source of revenue for the fund. A committed revenue source would be one that the full governing board has passed a resolution committing that stream of revenue for a specific purpose and that constitutes a substantial funding source of the fund.

Capital projects funds may include expenditures for general capital purchases. In the past capital projects funds have been used primarily for major construction projects. Only general fund capital projects should be accounted for in capital project funds, any capital projects done proprietary funds (i.e. utilities funds) should be accounted for in their respective funds.

Debt service funds are to be used when legally required or when resources are being accumulated to pay for principal and interest on long-term debt. This is simply a clarification from previous standards.

Practical Suggestions

Fund Types

Some special revenue funds currently established by governments may not meet the definition of a special revenue fund under GASB 54. Tennessee law currently requires that solid waste operations be accounted for in either a special revenue fund or if an operating landfill or incinerator in a proprietary fund. Fees charged for solid waste services are not considered restricted and are not committed unless the governing body adopts a resolution committing its use for only solid waste purposes. Any existing special revenue fund that does not meet the new definition must be combined into the general fund at the end of the fiscal year for reporting purposes. In other words, governments should continue to account for solid waste operations in a separate fund during the year. The Comptroller of The Treasury, Division of Local Government Audit issued the following guidance:

“The activities being accounted for in a proprietary fund are not impacted. However, activities being accounted for in special revenue funds will be affected. Solid waste activities will not meet the criteria for being reported in a special revenue fund. To bridge the gap, the accounting records will still account for solid waste activities as they have in the past. However, for financial reporting purposes, the activities will be rolled into the general fund. A supplemental schedule should be created to reflect the activities to demonstrate compliance with T.C.A.”

The complete directive from Division of Local Government Audit can be found in the Audit Manual, www.comptroller.tn.gov/la/AuditManual.asp [9]

Classifying Fund Balances

Reference Number:
MTAS-580

Classifying fund balances for compilance with this standard requires governments to assess decisions made throughout the year regarding how resources are intended to be spent. Some of the steps necessary to properly classify fund balances include:

- Determine if the government has non-spendable assets such as inventory, pre-paid expenditures or long-term receivables (due from other funds) that should be classified.
- Locate any resolution or ordinance that earmarks a specific revenue stream or available resources for a specified purpose.
- Identify any restrictions placed on resources by external parties such as debt covenants and state or federal law.
- Document if authority has been given to a committee or individual to assign resources and create a list of assignments made by those parties.

Internal Accounting and Reporting

Reference Number:
MTAS-581

T.C.A. § 9-3-401 *et seq.*, known as the Local Government Modernization Act of 2005, requires that local government accounting and reporting comply with generally accepted accounting principles. Penalties or restrictions may be assessed at the discretion of the comptroller’s office for noncompliance with the act. What this means for governments is they must follow accounting standards established by the Governmental Accounting Standards Board (GASB). In order to record the new fund balances in the internal accounting system new account numbers must be established. Depending on the type of software used in each government this may have to be done with assistance from software vendors. MTAS recommends that governments consult with their software vendors and independent auditors prior to making any adjustments to fund balance in the accounting system. It may be necessary to create a separate spreadsheet or file to reclassify fund balances and maintain supporting documentation for your classification decisions and make the fund balance adjustments at year end.

Model Fund Balance Policy

Reference Number:

MTAS-582

Model General Fund Fund Balance Policy

The Fund Balance Policy is intended to provide guidelines during the preparation and execution of the annual budget to ensure that sufficient reserves are maintained for unanticipated expenditures or revenue shortfalls. It also is intended to preserve flexibility throughout the fiscal year to make adjustments in funding for programs approved in connection with the annual budget. The Fund Balance Policy should be established based upon a long-term perspective recognizing that stated thresholds are considered minimum balances. The main objective of establishing and maintaining a Fund Balance Policy is for the city to be in a strong fiscal position that will allow for better position to weather negative economic trends.

The Fund Balance consists of five categories: **Non-spendable, Restricted, Committed, Assigned, and Unassigned**.

- **Non-spendable Fund Balance** consists of funds that cannot be spent due to their form (e.g. inventories and pre-paids) or funds that legally or contractually must be maintained intact.
- **Restricted Fund Balance** consists of funds that are mandated for a specific purpose by external parties, constitutional provisions or enabling legislation.
- **Committed Fund Balance** consists of funds that are set aside for a specific purpose by the city's highest level of decision making authority (governing body). Formal action must be taken prior to the end of the fiscal year. The same formal action must be taken to remove or change the limitations placed on the funds.
- **Assigned Fund Balance** consists of funds that are set aside with the intent to be used for a specific purpose by the city's highest level of decision making authority or a body or official that has been given the authority to assign funds. Assigned funds cannot cause a deficit in unassigned fund balance.
- **Unassigned Fund Balance** consists of excess funds that have not been classified in the previous four categories. All funds in this category are considered spendable resources. This category also provides the resources necessary to meet unexpected expenditures and revenue shortfalls.

Non-spendable and Restricted Funds

Non-spendable funds are those funds that cannot be spent because they are either:

1) Not in spendable form (e.g. inventories and pre-paids).
2) Legally or contractually required to be maintained intact.

It is the responsibility of the finance director to report all non-spendable funds appropriately in the city's financial statements.

Restricted funds are those funds that have constraints placed on their use either:

1) Externally by creditors, grantors, contributors, or laws or regulations or other governments.
2) By law through constitutional provisions or enabling legislation.

It is the responsibility of the finance director to report all restricted funds appropriately in the city's financial statements. All restricted funds also must be reported to the city's governing body within two months of the end of the fiscal year.

Order of Use of Restricted and Unrestricted Funds

When both restricted and unrestricted funds are available for expenditure, restricted funds should be spent first unless legal requirements disallow it.

When committed, assigned and unassigned funds are available for expenditure, committed funds should be spent first, assigned funds second, and unassigned funds last.

Authority to Commit Funds

The city's governing body has the authority to set aside funds for a specific purpose. Any funds set aside as committed fund balance requires the passage of an ordinance. The passage of an ordinance must take place prior to June 30 of the applicable fiscal year. If the actual amount of the commitment is not available by June 30, the ordinance must state the process or formula necessary to calculate the actual amount as soon as information is available. In the event the governing body wishes to lift the committed status of funds so that they may be used for general purposes, an ordinance must be passed to do so.

Stabilization Funds

The city's governing body has the authority to establish a financial stabilization account that will be a committed fund balance. A financial stabilization account is established for the purpose of providing funds for an urgent event that affects the safety of the general public (e.g. flood, tornado, etc.). The minimum level for the financial stabilization account is 5 percent of general fund expenditures. The recognition of an urgent event must be established by the governing body or its designee (e.g. chief administrative officer). If established by the governing body's designee, the specific urgent event must be reported to the governing body at its next meeting. A budget amendment must be approved by the city's governing body. In the event that the balance drops below the established minimum level, the city's governing body will develop a plan to replenish the financial stabilization account balance to the established minimum level within four years.

Authority to Assign Funds

Upon passage of the fund balance policy, authority is given to the city's finance director to assign funds for specific purposes in an amount not to exceed per purpose or in total not to exceed . Any funds set aside as assigned fund balance must be reported to the city's governing body at their next regular meeting and recorded in the minutes. The governing body has the authority to remove or change the assignment of the funds with a simple majority vote.

The city's governing body has the authority to set aside funds for the intended use of a specific purpose. Any funds set aside as assigned fund balance requires a simple majority vote and must be recorded in the minutes. The same action is required to change or remove the assignment.

Upon passage of a budget ordinance where fund balance is used as a source to balance the budget, the finance director shall record the amount as assigned fund balance.

Unassigned Fund Balance

Unassigned fund balance is the residual amount of fund balance in the general fund. It represents the resources available for future spending. An appropriate level of unassigned fund balance should be maintained in the general fund in order to cover unexpected expenditures and revenue shortfalls.

Unassigned fund balance may be accessed in the event of unexpected expenditures up to the minimum established level upon approval of a budget amendment by the city's governing body. In the event of projected revenue shortfalls, it is the responsibility of the finance director to report the projections to the city's governing body on a quarterly basis and shall be recorded in the minutes.

Any budget amendment that will result in the unassigned fund balance dropping below the minimum level will require the approval of two-thirds vote of the city's governing body.

The fund balance policy establishes a minimum unassigned fund balance equal to 15 percent of general fund expenditures. In the event that the balance drops below the established minimum level, the city's governing body will develop a plan to replenish the fund balance to the established minimum level within two years.

Sample Minimum Fund Balance Policy

Reference Number:
MTAS-583

Purpose

The city hereby establishes and will maintain reservations of fund balance as defined herein in accordance with Governmental Accounting Standards Board Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions and with regards to guidance from the Government Finance Officers Association (GFOA) GAAFR. This policy shall apply to the city's general fund and general debt service fund. Governmental fund balance may be composed of restricted, committed, assigned, non-spendable and unassigned amounts per GASB Statement 54.

Minimum Level of Unassigned Fund Balance – General Fund

The general fund unassigned fund balance will be maintained at a level sufficient to provide for the required resources to meet operating cost needs, to allow for unforeseen needs of an emergency nature, and to permit orderly adjustment to changes resulting from fluctuations of revenue sources. Given that current property tax collections do not begin until the fourth month of the fiscal year, Sample City will maintain at least 6 months of the next year's budget in the unassigned fund balance of the general fund.

Any amounts remaining in the fiscal year-end unassigned fund balance in excess of 6 months of the approved subsequent year's budget will be available for appropriation by the city legislative body to cover such items as revenue shortfalls and unanticipated expenditures, and to ensure stable tax rates. The city legislative body will attempt whenever possible to avoid appropriating such funding for recurring expenses.

Minimum Level of Fund Balance – General Debt Service Fund

It is the practice of the city to pay the principle and interest requirements on the city's debt obligations from the debt service fund. Each year the budget committee of the city shall determine or estimate the principle and interest requirements of the city and recommend sources of revenues to meet these actual or projected requirements. Additionally, it shall be the policy of the city to begin each fiscal year with a balance of cash or investments in the debt service fund in a conservatively calculated amount adequate to meet (1) cash flow needs, (2) budgeting contingencies, (3) emergency contingencies, (4) variable rate volatility contingencies, and (5) future forecasted needs.

Cash flow requirement component: The majority of local city revenues come from property taxes. Property taxes levied for a specific fiscal year are generally collected in the second half of that fiscal year. For this reason, it is common for the city to expend more than it collects during the first half of the fiscal year. For this reason, it shall be the policy of the city to begin each fiscal year with a sum of cash or investments equal to the debt service fund requirements scheduled to be expended during the first six months of the next fiscal year. This amount will typically equal six months of interest expense on the city's total indebtedness unless the city schedules principal payments in the first six months of the fiscal year. Generally, except for short-term capital outlay notes, the city will not schedule principal payments in the first six months of the fiscal year.

Annual Review and Determination of Fund Balance Reserve Amounts

Compliance with the provisions of this policy shall be reviewed as a part of the annual budget adoption process and amounts of the minimum level of unassigned fund balance in the general fund and the minimum level of available fund balance (for debt service payments) in the debt service fund shall be determined during this process.

Receipt and Investment of Funds

Reference Number:
MTAS-616

Receipt of Municipal Funds
Municipalities are authorized to accept checks, money orders, credit cards, and debit cards for taxes, licenses, fines, fees, and other money collected by the municipality. T.C.A. § 9-1-108(a) and (c)(1). If payment is made by check and it is returned for any reason, the municipality may impose a penalty of $20 or 1 percent of the amount of the check over $2,000. T.C.A. § 9-1-109. If payment is made by a credit card or debit card, the municipality may collect a processing fee in an amount equal to the amount paid to the third party that processes the payment. This fee shall not exceed 5 percent of the amount of the payment. If payment is made by a credit card that is not honored by the credit card company, the municipality may collect a service charge equal to that charged for a check that is returned for insufficient funds. This charge shall not apply if an electronic device is used to conduct the credit card transaction and the card and cardholder are present when the municipal officer conducting the transaction learns that the credit card will not be honored. The municipal officer collecting funds through payment by a credit card or debit card shall state on any notice to the person owing the tax, fine, fee, etc., either the percentage of the processing fee or the actual fee imposed for the use of a credit card or debit card. T.C.A. § 9-1-108(c)(2)-(6).

Investment (Deposit) of Municipal Funds
Funds temporarily not needed may be invested in a wide range of securities, including:

- U.S. Treasury bills and notes;
- Non-convertible securities of federal government-sponsored enterprises chartered by the U.S. Congress, such as the Federal National Mortgage Association;
- Secured certificates of deposit at state and federal chartered banks and savings and loan associations;
- Repurchase agreements of federal agency securities under procedures established by the state funding board if approved by the office of the comptroller;
- Top-rated state and local government general obligation bonds–investment of proceeds of notes and bonds (T.C.A. § 6-56-106);
- TVA obligations (T.C.A. § 35-3-119);
- Public housing authority obligations (T.C.A. § 35-3-115);
- Industrial building bonds (T.C.A. § 7-55-114);
- Industrial development corporation bonds (T.C.A. § 7-53-309); and
- Water treatment authorities (T.C.A. § 68-221-611(h)).

Most investments are limited to a maximum of four-year maturities unless approved by the office of the comptroller T.C.A. § 6-56-106(b).

Investments in non-convertible debt securities of federal issuers, repurchase agreements, and prime bankers' acceptances and commercial paper must be authorized by ordinance. The governing body also must adopt a written investment policy to govern these investments. The policy must be at least as strict as that of the state funding board. T.C.A. § 6-56-106(a)(7)(C).

Municipalities also may invest in cash management accounts to preserve FDIC protection. T.C.A. § 9-1-118.

Investment Pool
An investment pool, administered by the state treasurer, is available for investing a local government's idle public funds. Local funds are consolidated with state funds, but accurate and detailed accounting records are maintained for each local government. The cost of the service is deducted from that government's prorata earnings. All funds transfers and filings must be done electronically. T.C.A. §§ 6-56-106 and 9-4-701–706.

Collateral
All cities may invest or deposit funds in state or federal savings and loan associations, providing certain collateral requirements are met for investments exceeding the $250,000 insured by federal bank insurance programs (FDIC). T.C.A. § 9-1-107. Funds in banks also must be collateralized (T.C.A. § 6-56-106), and the collateral must have a market value equal to 105 percent of the government funds it secures. T.C.A. § 9-4-105.

Collateral Pool
The Collateral Pool for Public Deposits Act of 1990 creates a system whereby any bank or savings institution designated as a qualified public depository guarantees public depositors against loss caused by the default or insolvency of other qualified banks or public depositories in the same pool. The act created the collateral pool board, which is responsible for

administering the system. T.C.A. §§ 9-4-501, *et seq.*

Municipal Audits

Reference Number:
MTAS-119

Each municipality’s governing body is responsible for obtaining annual audits of "all departments, boards, and agencies under its jurisdiction that receive and disburse funds ... [including] general funds, highway funds, school funds, public utilities, and municipal courts." The official accounting records of the municipality are required to be closed and available for audit no later than two months after the close of the fiscal year. The audit must be completed "as soon as practicable after the end of the fiscal year". T.C.A. § 6-56-105.

Copies of the audit must be furnished to the mayor, the "chief executive officer," each member of the governing body, and the comptroller and "shall also be made available to the press". T.C.A. § 6-56-105. A copy is required to be placed in the main branch of the municipality’s public library and also may be posted on the internet. T.C.A. § 6-56-104.

Such audits must meet minimum standards prescribed by the state comptroller and shall be approved by that office. The audits may be made by certified public accountants, public accountants, or auditors from the comptroller’s office. If a city fails to have an audit, the comptroller may require one at the city’s expense. T.C.A. § 6-56-105.

The Department of Audit in the comptroller’s office may establish minimum standards for audits by the internal audit staffs of local governments. The department also may require all such audits to contain a statement of compliance with those standards. T.C.A. § 4-3-304(9).

Audit Standards

Reference Number:
MTAS-658

State law requires municipalities be audited. The financial statement audit must be performed in accordance with generally accepted government auditing standards also known as the Yellow Book.* This means that auditors must follow statements on auditing standards (SAS) issued by the American Institute of Certified Public Accountants (AICPA) and additionally comply with government auditing standards issued by the United States Government Accountability Office (GAO). The audit industry has come under scrutiny in recent years due to major corporate frauds and failures. As a result, the industry has strengthened auditing requirements related to internal controls and communications of audit deficiencies.

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*AKA Government Auditing Standards

Government Auditing Standards (the "Yellow Book") contains standards for audits of government organizations, programs, activities, functions, and of government assistance received by contractors, nonprofit organizations, and other nongovernment organizations. These standards, often referred to as generally accepted government auditing standards (GAGAS), are to be followed by auditors and audit organizations when required by law, regulation, agreement, contract, or policy. These standards pertain to auditors' professional qualifications, the quality of audit effort, and the characteristics of professional and meaningful audit reports. The Tennessee Division of Local Government Audit requires auditors who contract to perform municipal audits in Tennessee to follow these standards.

Directives for Auditors

Reference Number:
MTAS-659

Auditors should be asking more questions about internal controls, checks and balances, the control environment, and policies and procedures. Recently issued auditing standards, SAS 109 *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* and SAS 115 *Communicating Internal Control Related Matters in an Audit* have a direct impact on local governments.

SAS 109 requires that auditors gain a more thorough understanding of the government’s environment, including internal control. This standard defines internal control as:

“A process affected by those charged with governance, management, and other personnel designed to provide reasonable assurance about the achievement of the entity’s objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations."

SAS 115 requires the auditors to redefine internal control deficiencies documented during the audit process. Municipalities may have more audit findings in their reports than in prior years. This may not mean you are handling transactions differently than in the past but auditors may not have asked the detailed level of questions that are now required in order to document compliance with these standards. Audit findings in the past that were referred to as “reportable conditions” are now called “significant deficiencies.” The term “material weakness” remains the same. Local governments that have not adopted control procedures to ensure financial transactions are processed accurately and completely will see “significant deficiencies” or “materials weaknesses” in their audit reports.

The standard also requires certain communications related to significant deficiencies and material weaknesses to be made in writing to management and those charged with governance. The person(s) who holds responsibility for strategic oversight for the direction of the entity and obligations for the accountability of the entity are considered “those charged with governance.” In local governments, that is usually the board of mayor and aldermen, council or commission. Management and elected officials should expect to see and hear more communications before, during and after the audit.

A few examples of control deficiencies found in government auditing guidance that might be the basis for an audit finding include:

- Lack of awareness of the importance of controls by top management (elected officials, mayor, city manager or administrator)
    - Failure to ensure that policies and procedures are adopted
- Ineffective oversight by those charged with governance
    - Failure to hire competent personnel in key management positions
- Control systems (check and balances) are not adopted or are not working properly
- Identification of fraud
- Failure by management to correct previously communicated deficiencies

Local Government Responsibilities

Reference Number:
MTAS-660

Municipal officials have the responsibility to ensure that municipal resources are being utilized in the most effective ways possible. No one likes to deal with red tape or jump through hoops to get things done but in order to maximize efficiency, controls must be implemented. Think about it, is the city or town receiving all the fines and fees it is entitled to from county court cases? How does anyone know if no comparison is done to see what should be collected? Are those rising fuel costs only because the price of fuel has skyrocketed? How do you know gas is not disappearing if a system is not in place to monitor usage by various departments? These are just a tiny sampling of questions that should be asked by those responsible for how a city operates. Internal Control is all-encompassing and not simply limited to writing receipts and getting money into the checking account at the end of the day. It involves considering how every task is performed.

Control over the manner in which a government processes its transactions is the responsibility of management. This always includes the governing board, who generally has delegated this day-to-day oversight to the recorder, city manager, finance officer or city administrator.

Two valuable resources for municipalities to use in structuring their financial and compliance practices are the *Internal Control and Compliance Manual for Governmental Entities* (City Manual), published by the Comptroller's Office, and a book titled *Government Accounting, Auditing and Financial Reporting (GAAFR)* more commonly called the *Blue Book*, published by the Government Finance Officers Association (GFOA). The latest version of the *Blue Book* is the 2012 revision. Finance staff of each city should use this publication as a reference book in recording and reporting financial transactions of the city.

The City Manual states in part:

“A good internal control framework is essential to providing reasonable assurance that organizations are achieving their objectives. Such objectives include, but are not limited to, utilizing public resources in compliance with laws, regulations and budgetary limitations. An adequate control framework will provide information that helps detect errors and fraud, and provides reasonable assurance that financial reports are accurate. It will limit the opportunity for theft or unauthorized use of assets, including cash, inventory, and capital assets."

The City Manual has recently been edited and places more responsibility on the governing bodies and management of municipalities for the design and implementation of the entity's internal control structure. The City Manual now follows more closely the GAO Green Book and is based on the 17 principals outlined in that reference material. The principals are presented in the City Manual and are recommended, but their use is not required. What is required by state and federal law if the establishing and maintaining of a system of internal control and implementation of the 5 compoments: Control Environment; Risk Assessment; Control Activities; Information and Communication; and Monitoring, should be considered mandatory.

If basic procedures for financial and compliance practices have not been implemented by your government then you will most likely have audit findings. To improve controls, municipal officials should begin implementing the procedures from the City Manual and not wait on the audit. The City Manual should be used as the minimum standard overseeing operations. Municipal management should add other procedures to further strengthen the reliability of financial data as necessary.

GFOA also has several “best practice” publications available that will be beneficial in determining controls to implement.

Assessment of Government Controls

Reference Number:
MTAS-661

Municipalities can begin to assess their controls by asking questions such as:

- What are employees doing?
- What can go wrong?
- Is the city collecting all the revenue it is due?

This process should be started before the auditors arrive. A good way to begin the assessment is to document the specific job duties of each employee involved in any part of the financial process. Once that is completed, those duties should be reviewed to ensure they are separated as much as possible.

The process should include determining what type of monitoring is performed to ensure transactions are being processed accurately and completely. Management should review at a very minimum the following items:

- monthly financial reports
- bank reconciliations
- utility adjustment reports
- accounts receivable reconciliations
- police ticket and court docket reconciliations
- property tax reconciliations

Refer to the Internal Control and Compliance Manual for Governmental Entities and Other Audited Entities in Tennessee [10] for ideas on how to start a self-assessment or contact your MTAS Finance Consultant.

Auditor Communications

Reference Number:
MTAS-739

Statement on Auditing Standards 114 (SAS 114), *The Auditor’s Communication with Those Charged with Governance*, requires that auditors communicate certain information to those charged with governance of the municipality. Who that might be varies from one municipality to the next, but ultimately it is the local governing board. Tennessee Code Annotated § 6-56-101 states “It is the duty of the governing board of every municipal corporation to have a thorough audit of the financial affairs of the corporation …”

If the municipality has established an audit committee or has a finance committee, then that committee has the responsibility to oversee the audit function. If there is no such committee, then the full governing board would be considered to be “those charged with governance” for the purpose of auditor communication. The audit standard defines “those charged with governance” as:

“the person(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity."

The auditor communication does not relieve management from also communicating certain matters to those charged with governance. Management is defined by SAS 114 as: “the person(s) responsible for achieving the objectives of the entity and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for the financial statements, including designing, implementing, and maintaining effective internal control over financial reporting.” Management in your city or town could be the mayor, city manager, city administrator or finance officer. It will vary depending on how the governing board and the city charter delegates the responsibilities of municipal government.

Purpose of Communication
The purpose of the auditor communication with those charged with governance is to:

- Communicate the responsibilities of the auditor as related to the financial statement audit and provide an overview of the scope and timing of the audit;
- Obtain information relevant to the audit; and
- Provide timely observations, arising from the audit, that are relevant to their responsibilities of oversight.

Form of Communication
Communication may be written or oral. The auditor must use professional judgment to determine when oral communication

would not be adequate. Whether delivered in writing or orally, the communication must come directly from the auditors. The auditor cannot rely on municipal management to relay the required communication to the governing board.

Content of Communication
Municipal officials should receive auditor communication at the beginning of the audit process which explains:

- the auditors' responsibilities for the audit
- an overview of the scope of the audit
- the timeframe of the audit

This may be in the form of an audit engagement letter or in a separate letter.

Another auditor communication should be made at the end of the audit process that details significant matters encountered during the audit. Significant findings may include:

- Unacceptable or inappropriate accounting practices
- Difficulties experienced during the audit
    - Significant delay receiving information from management
    - Unnecessarily brief time to complete the audit
    - Extensive unexpected effort required to obtain sufficient appropriate audit evidence
    - Expected information is unavailable
    - Management imposed restrictions on auditors
    - Management's unwillingness to provide information on how it plans to deal with going concern issues
- Material uncorrected misstatements in the financial statements
- Disagreements with management
- Management's consultation with other accountants
- Significant matters discussed with management

Two-way Communication
It is the responsibility of the auditor to ensure that communication with those charged with governance is adequate. If the governing body is not receiving adequate information concerning the audit process and audit findings, it is the auditor's responsibility to make necessary changes in the communication process to ensure audit information is properly communicated.

In Summary
Municipal elected officials and municipal management should be aware of the communications that auditors should make related to the annual audit. The governing board is ultimately responsible for ensuring the audit is performed. The governing board, audit committee or finance committee should make every effort to understand the auditor communications and ask questions when certain matters are not clear. The auditor cannot delegate his obligation to communicate with the governing body to municipal management. Auditors who do not formally present audit reports at board or committee meetings should mail the required communications and a copy of the audit report directly to each board or committee member.

References:
AICPA, Generally Accepted Auditing Standards, AU Section 380.
AICPA, SAS 114, The Auditor's Communication with Those Charged with Governance.
Government Accountability Office, Government Auditing Standards, GAO-07-731G.

Finance Reports

Reference Number:
MTAS-120

There are a number of reporting requirements for cities to comply with for submissions to the State Comptroller's Office, Office of State and Local Finance. Most have to do with debt issuances and the annual budget process.

Reporting Requirements - Division of Local Finance

Reference Number:
MTAS-573

Annual Reporting Requirements of the State Office of State & Local Finance
The State of Tennessee Comptroller of the Treasury, Office of State & Local Finance (OSLF), is the agency responsible for

oversight of city-issued debt. Cities that issue debt, must annually submit their budgets to the OSLF for approval before the budget becomes official. This requirement applies to any debt. Every city must file, within 45 days from issuance, Form CT-0253 to the state on all debt issued.

The OSLF requires the submission of a cash basis balanced budget with certain supporting documents for approval. These documents must contain sufficient information for the state to determine if the city's budget is balanced on a cash basis and that appropriations are sufficient to meet all expenses of operations and annual debt service requirements. A budget will be considered balanced on a cash basis if beginning cash balances plus revenues are enough to cover the appropriations. The following is a list of example items your city may be required to submit in order to comply with the OSLF requirements. (Refer to the annual memorandum mailed to cities by the OSLF in the spring each year for other specific information required):

- A copy of your annual operating and capital budget ordinance after adoption, with any supporting schedules. This should be a certified copy. If the city is not able to adopt a budget by July 1, a continuation budget ordinance must be submitted for approval.
- A certified copy of your tax levy ordinance (if separate from the budget ordinance).
- Your detailed annual operating budget after passage. Use a three-column format showing last year's actual figures from the audit report, this year's projected data, and the next year's proposed budget. This should include detailed revenues, expenses/expenditures, and beginning and ending cash balances. All funds, including enterprise funds, must be included. Enterprise Fund budgets typically do not list debt principal repayments because budgets are to be prepared on a cash basis. To comply with the state requirements, if your city has prepared an enterprise fund budget on the accrual basis, then you will need to convert it to the cash basis for submission to the OSLF. Alternatively, at the end of your expense budget, a reconciliation can be prepared removing any depreciation and amortization, and adding debt principal repayments. Interest payments are already properly recorded as an expense. This converts your accrual-based budget to a cash basis budget.
- A budget summary schedule (format provided by state).
- A schedule of outstanding debt and a schedule of budgeted debt payments by fund (formats provided by state). These two schedules should be reconciled to each other.
- Revenue projections for property tax and sales tax, if applicable. For property taxes, calculate the projected revenue by multiplying the assessed value by your property tax rate, and then dividing the total by $100. Include this information as a schedule that you send to the state.
- A statement of cash flow analysis for enterprise funds and any other fund requesting tax/revenue anticipation notes.
- A copy of your capital budget if you have one. Except for general law modified city manager-council charter cities, there is no requirement to produce a capital budget. You should notify the state if you do not have one so that the budget approval process will not be slowed by the OSLF staff looking for something that does not exist.
- A SRF loan covenant and Water Wastewater Financing Board worksheet, if applicable.
- A city with a school system must submit the balanced school budget. These requirements are only for the OSLF, other agencies may require separate reporting. Be sure that the city's appropriated expenditure for the school system matches the revenue listed in the school system's budget. If the school system has outstanding debt, the above mentioned debt schedules should be included for the school system also.

These are the basic requirements. The OSLF may ask for additional details or schedules. As you might imagine, this is serious business, and budgets that don't balance or that are without sufficient detail for analysis will slow the approval of your budget.

For more information:
Office of State & Local Finance
State of Tennessee
Comptroller of the Treasury
Office of State and Local Finance
Division of Local Finance
Cordell Hull Building
425 Fifth Avenue North
Nashville, Tennessee 37243
Phone: (615) 401-7872
Fax: (615) 741-5986

Municipal Travel Policy

Reference Number:
MTAS-1160

State law requires all municipalities with populations less than 100,000 to adopt and file with the state comptroller, a travel policy that covers expense reimbursement for elected and appointed officials. One of the requirements of the law is that the University of Tennessee (UT) Municipal Technical Advisory Service (MTAS) “shall disseminate, and amend from time to time as necessary, a model travel and expense policy to provide guidance for the various municipalities.” Following are that model policy and two needed forms, approved by the comptroller.

Note: Cities adopting the MTAS model travel policy are required to notify the Comptroller of the Treasury in writing that the policy has been adopted and the date of adoption. Tennessee Code Annotated § 6-54-904. A simple letter saying your municipality has adopted the model policy and selected a reimbursement rate (federal or state) will suffice.

Municipalities have the option of writing their own travel and expense policy. If your city does so, you must file the policy with the comptroller.

The law appears to give municipalities the authority to provide vehicles for some elected and appointed officials. If your city provides vehicles, your municipal legislative body must adopt a written policy for vehicle use that is separate from the travel and expense policy and contains no other subject matter. MTAS has examples of such policies if you need them.

Highlights of Municipal Travel and Expense Law

Reference Number:
MTAS-1161

- This law does not apply to municipalities and metropolitan governments above 100,000 in population.
- It includes all cities with populations below 100,000.
- It covers city boards, city utility boards, boards of education and other boards or committees.
- MTAS is required to write a model travel and expense policy to guide municipalities. This policy and any amendments are subject to comptroller approval.
- Any city can write its own travel policy and file it with the comptroller. A travel policy written and adopted by a city does not need comptroller approval; it just has to be filed.
- If a city wants different travel policies or reimbursement rates for different boards, board members or employees, it apparently can do that. But the city must write its own policy and file it with the comptroller.
- If a city adopts the MTAS model, it must decide which travel reimbursement rate schedule (federal or state) to follow and complete the blank line, pass the ordinance and notify the comptroller in writing.
- Municipalities may provide vehicles for city officials. This sample travel policy does not cover the requirement that “a written policy shall be adopted by the municipal legislative body. The written policy for vehicle use shall be separate from the travel and expense policy provided for in the previous sections and shall contain no other subject matter.”
- Travel allowances not supported by adequate documentation are considered compensation. If statute, charter or private act limits an official’s pay, undocumented travel could cause the salary to exceed that limit.

Sample Municipal Travel Policy Ordinance

Reference Number:
MTAS-1162

ORDINANCE NO. ______

AN ORDINANCE OF THE CITY (TOWN) OF ________________________, TENNESSEE, TO ESTABLISH TRAVEL REIMBURSEMENT REGULATIONS FOR CITY OFFICIALS AND CITY EMPLOYEES CONDUCTING OFFICIAL BUSINESS.

PURPOSE
The purpose of this ordinance and referenced regulations is to bring the city into compliance with *Tennessee Code Annotated* §§ 6-54-901–907. This law requires Tennessee municipalities to adopt travel and expense regulations covering expenses incurred by "any mayor and any member of the local governing body and any board or committee member elected or appointed by the mayor or local governing body, and any official or employee of the municipality whose salary is set by charter or general law."

To provide consistent travel regulations and reimbursement, this ordinance is expanded to cover regular city employees. It is the intent of this policy to assure fair and equitable treatment to all individuals traveling on city business at city expense.

ENFORCEMENT
The chief administrative officer (CAO) of the city or his or her designee shall be responsible for the enforcement of these travel regulations.

TRAVEL POLICY

A. In the interpretation and application of this ordinance, the term "traveler" or "authorized traveler" means any elected or appointed municipal officer or employee, including members of municipal boards and committees appointed by the mayor or the municipal governing body, and the employees of such boards and committees who are traveling on official municipal business and whose travel was authorized in accordance with this ordinance. "Authorized traveler" shall not include the spouse, children, other relatives, friends, or companions accompanying the authorized traveler on city business, unless the person(s) otherwise qualifies as an authorized traveler under this ordinance.

B. Authorized travelers are entitled to reimbursement of certain expenditures incurred while traveling on official business for the city. Reimbursable expenses shall include expenses for transportation; lodging; meals; registration fees for conferences, conventions and seminars; and other actual and necessary expenses related to official business as determined by the CAO. Under certain conditions, entertainment expenses may be eligible for reimbursement.

C. Authorized travelers can request either a travel advance for the projected cost of authorized travel, or advance billing directly to the city for registration fees, air fares, meals, lodging, conferences and similar expenses.
Travel advance requests are not considered documentation of travel expenses. If travel advances exceed documented expenses, the traveler must immediately reimburse the city. It will be the responsibility of the CAO to initiate action to recover any undocumented travel advances.

D. Travel advances are available only for special travel and only after completion and approval of the travel authorization form.

E. The travel expense reimbursement form will be used to document all expense claims.

F. To qualify for reimbursement, travel expenses must be:

- Directly related to the conduct of the city business for which travel was authorized; and
- Actual, reasonable and necessary under the circumstances. The CAO may make exceptions for unusual circumstances.

Expenses considered excessive will not be allowed.

G. Claims of $5 or more for travel expense reimbursement must be supported by the original paid receipt for lodging, vehicle rental, public carrier travel, conference fee and other reimbursable costs.

H. Any person attempting to defraud the city or misuse city travel funds is subject to legal action for recovery of fraudulent travel claims and/or advances.

I. Mileage and lodging expenses incurred within the city are not ordinarily considered eligible expenses for reimbursement.

TRAVEL REIMBURSEMENT RATE SCHEDULES

Authorized travelers shall be reimbursed according to the ______________________________ [*enter either federal or state of Tennessee*] travel regulation rates. The city's travel reimbursement rates will automatically change when the _________________________ [*federal or state*] rates are adjusted.

The municipality may pay directly to the provider for expenses such as meals, lodging and registration fees for conferences, conventions, seminars and other education programs.

ADMINISTRATIVE PROCEDURES

The city adopts and incorporates by reference — as if fully set out herein — the administrative procedures submitted by MTAS to, and approved by letter by, the Comptroller of the Treasury, State of Tennessee. A copy of the administrative procedures is on file in the office of the city recorder.

This ordinance shall take effect upon its final reading by the municipal governing body. It shall cover all travel and expenses occurring on or after the date of adoption.

THIS ORDINANCE IS ADOPTED THIS _______ DAY OF _________, 202_.

Signed:____

Mayor

Attested:____

Notes:

- **If a city decides not to adopt this model travel policy and the administrative procedures that follow, then that city must prepare and file its own travel policy with the comptroller.**
- **If your city would like a copy of the comptroller's approval letter of the MTAS policy, contact MTAS.**

Administrative Procedures

Reference Number:
MTAS-1163

Click on the topics below in this section for more information.

Travel Requests

Reference Number:
MTAS-1164

To ensure reimbursement for official travel, an approved travel authorization form is required. This assures reimbursement within the limits of the city travel policy. Lack of pre-approval does not prohibit reimbursement. All costs associated with the travel should be reasonably estimated and shown on the travel authorization form. An approved authorization form is needed before advanced expenses are paid or travel advances are authorized. A copy of the conference program, if applicable, should be attached to the form. If the program is not available prior to the travel, submit it with the reimbursement form.

Travel Documentation

Reference Number:
MTAS-1165

It is the responsibility of the authorized traveler to

- Prepare and accurately describe the travel;
- Certify the accuracy of the reimbursement request;
- Note on the reimbursement form all direct payments and travel advances made by the city; and
- File the reimbursement form with the necessary supporting documents and original receipts.

The reimbursement form should be filed with the finance department within 10 days of return or at the end of the month, whichever is more practical.

Transportation Documentation

Reference Number:
MTAS-1169

All potential costs should be considered when selecting the modes of transportation. For example, airline travel may be cheaper than automobile when time away from work and increased meal and lodging costs are considered. When time is important, or when the trip is so long that other modes of transportation are not cost-beneficial, air travel is encouraged.

If the traveler goes outside the state by means other than air, the reimbursement will be limited to air fare at tourist or economy class, ordinary expenses during the meeting dates, and one day's meals and motel before and after the meeting. The traveler will be required to take annual leave for any additional time taken beyond the day before and the day after the meeting dates.

Exceptions: When the traveler extends the trip with personal time to take advantage of discount fares, the reimbursement will be limited to the lesser of the:

- Actual expenses incurred; or
- Amount that would have been incurred for the business portion only. The calculations for the business portion of the trip must be made using the least expensive rates available.

All expenses and savings associated with extending the trip must be submitted with the expense reimbursement form.

A. Air
When possible, the traveler should make full use of discounts for advance airline reservations and advance registration. The traveler should request conference, government, or weekend rates, whichever is cheaper, when making lodging or rental car reservations. The city will pay for tourist or economy class air travel. The traveler should get the cheapest reasonable fare and take advantage of discount fares. Airline travel can be paid by direct billing to the city.

Mileage credits for frequent flyer programs accrue to the individual traveler. However, the city will not reimburse for additional expenses — such as circuitous routing, extended stays, layovers to schedule a particular carrier, upgrading from economy to first class — for travelers to accumulate additional mileage or for other personal reasons.

The city will not reimburse travel by private aircraft unless authorized in advance by the CAO.

B. Rail or Bus
The city will pay for actual cost of ticket.

C. Vehicles
Automobile transportation may be used when a common carrier cannot be scheduled, when it is more economical, when a common carrier is not practical, or when expenses can be reduced by two or more city employees traveling together.

- **Personal Vehicle.** Employees should use city vehicles when possible. Use of a private vehicle must be approved in advance by the CAO. The city will pay a mileage rate not to exceed the rate allowed by the federal or state schedule, whichever the city adopts. The miles for reimbursement shall be paid from origin to destination and back by the most direct route. Necessary vicinity travel related to official city business will be reimbursed. However, mileage in excess of the Rand-McNally mileage must be documented as necessary and business-related. If an indirect route is taken, the Rand-McNally mileage table will be used to determine the mileage to be reimbursed.
- If a privately owned automobile is used by two or more travelers on the same trip, only the traveler who owns or has custody of the automobile will be reimbursed for mileage. It is the responsibility of the traveler to provide adequate insurance to hold harmless the city for any liability from the use of the private vehicle.
- In no event will mileage reimbursement, plus vicinity travel and associated automobile costs, exceed the lowest reasonable available air fare and associated air fare travel costs.
- Travelers will not be reimbursed for automotive repair or breakdowns when using their personal vehicle.
- **City Vehicle.** The city may require the employee to drive a city vehicle. If a city vehicle is provided, the traveler is responsible for seeing that the vehicle is used properly and only for acceptable business. The employee will be reimbursed for expenses directly related to the actual and normal use of the city vehicle when proper documentation is provided. Out-of-town repair cost to the city vehicle in excess of $100 must be cleared with the proper city official before the repair is authorized.
- **Rental Cars.** Use of a rental car is not permitted unless it's less expensive or otherwise more practical than public transportation. Approval of car rental is generally required in advance by the CAO. Always request the government or weekend rate, whichever is cheaper. Anyone who uses a rental car for out-of-state travel must obtain liability coverage from the vendor.
- Fines for traffic or parking violations will not be reimbursed by the city.
- Reasonable tolls will be allowed when the most direct travel route requires them.

D. Taxi, Limousine and Other Transportation Fares
When an individual travels by common carrier, reasonable fares will be allowed for necessary ground transportation. Bus or limousine service to and from airports should be used when available and practical. The city will reimburse mileage for travel to and from the local airport and parking fees, provided such costs do not exceed normal taxi/limousine fares to and from the airport. Receipts are required.

For travel between lodging quarters and meetings, conferences, or meals, reasonable taxi fares will be allowed. Remember, original receipts are required for claims of $5 or more. Transportation to and from shopping, entertainment, or other personal trips is the choice of the traveler and not reimbursable.

Reimbursement claims for taxis, limousines, or other ground transportation must be listed separately on the expense form, claiming the destination and amount of each fare.

Lodging

Reference Number:
MTAS-1166

The amount allocated for lodging shall not ordinarily exceed the maximum per diem rates authorized by the federal or state rate schedule, whichever is chosen by the city.

A. If the city reimburses using the federal rates, the Government Services Administration provides guidelines for determining the maximum that can be reimbursed for lodging. These amounts are available on line at http://www.gsa.gov/portal/content/105307 [11]. The rates are the maximum reimbursable rates for hotel rooms plus appropriate taxes.

If the city chooses Tennessee's reimbursement rate, the amount varies according to location, and does not include appropriate taxes. State rates for travel reimbursement can be found in the state regulations online at https://www.tn.gov/content/dam/tn/finance/documents/fa_policies/policy8.pdf [12].

B. Original lodging receipts must be submitted with the reimbursement form. Photocopies are not acceptable.

C. If a traveler exceeds the maximum lodging per diem, excess costs are the responsibility of the traveler.

D. If the best rate is secured, and it still exceeds the maximum lodging per diem, the CAO may authorize a higher reimbursement amount.

Even if it costs more, travelers may be allowed to stay at the officially designated hotel of the meeting; however, more moderately priced accommodations must be requested whenever possible. It will be the traveler's responsibility to provide documentation of the "officially designated meeting site" room rates, if these rates are higher than the normal reimbursable amounts.

E. If two or more city employees travel together and share a room, the lodging reimbursement rate will be the maximum of two single rooms. If an employee shares a room with a non-employee, the actual cost will be allowed up to the maximum reimbursable amount. The receipt for the entire amount must be submitted with the expense form.

Meals and Incidentals

Reference Number:
MTAS-1167

Meals

Receipts are not required for meals and incidentals. The authorized traveler may be reimbursed the daily amount based on the rate schedule and the authorized length of stay. The per diem meal amounts are expected to cover meals, tips, porters and incidental expenses. The authorized traveler will not be reimbursed more than this.

Whether meals may be claimed depends on when the traveler leaves and returns to the official station. The traveler's official station is home or work, whichever produces the least cost to the city. Under the state travel regulations, reimbursement for meals is not permitted for one-day travel status with no overnight stay.

Regardless of which reimbursement rate the city uses, the amounts include tip, gratuity, etc. The hour and date of departure and return must be shown on the expense reimbursement form.

The excess cost of an official banquet may be allowed provided proper documentation or explanation is submitted with the expense reimbursement form. If a meal is included as part of a conference or seminar registration, or is included with the air fare, then the allowance for that meal should be subtracted from the total allowance for the day. For example, if a dinner is included as part of the conference fee, the maximum meal allowance for the day should be reduced by the allowed dinner amount.

PLEASE NOTE:
The municipality has selected to reimburse travelers at the ____________________________ [*enter either federal or state*] travel regulation rates. The city's rates will automatically change when the selected agency rates are adjusted.

Miscellaneous Expenses

A. Registration fees for approved conferences, conventions, seminars, meetings and other educational programs will be allowed and will generally include the cost of official banquets, meals, lodging and registration fees. Registration fees should be specified on the original travel request form and can include a request for pre-registration fee payment.

B. A $5 allowance will be reimbursable for hotel/motel check-in and baggage handling expenses.

C. Laundry, valet service, tips and gratuities are considered personal expenses and are not reimbursable.

D. For travel outside the United States, all expenses claimed must be converted to U.S. dollars. The conversion rate and computation should be shown on each receipt.

Entertainment

Reference Number:
MTAS-1168

The city may pay for certain entertainment expenses provided that the:

A. Entertainment is appropriate in the conduct of city business;

B. Entertainment is approved by the CAO;

C. Group or individuals involved are identified; and

D. Documentation is attached to the expense form to support the entertainment expense claims.

To request reimbursement for authorized entertainment expenses, be sure to include with the expense reimbursement form:

A. Required receipts. All requests must be supported by original receipts from the vendor (restaurant, caterer, ticket office, etc.) Reasonable tips and gratuities included on the receipt by the vendor are reimbursable.

B. A disclosure and explanation statement, explaining the purpose of the entertainment and identifying the group and the number of people entertained (or individual names listed if not a recognized group).

If the CAO is the person filing the claim, then it must be approved by the governing board before the finance officer authorizes payment.

Travel Reconciliation

Reference Number:
MTAS-1170

A. Within 10 days of return from travel, or by the end of the month, the traveler is expected to complete and file the expense reimbursement form. It must be certified by the traveler that the amount due is true and accurate. Original lodging, travel, taxi, parking and other receipts must be attached.

If the city provided a travel advance or made advanced payment, the traveler should include that information on the expense form. In the case of advances, the form should have a reconciliation summary, reflecting total claimed expenses with advances and city pre-payments indicated. The balance due the traveler or the refund due the city should be clearly shown below the total claim on the form or in a cover memo attached to the front of the form.

B. If the traveler received a travel advance and spent less than the advance, the traveler should attach a check made payable to the city for that difference.

C. The CAO will address special circumstances and issues not covered in this ordinance on a case-by-case basis.

Disciplinary Action

Reference Number:
MTAS-1171

Violation of the travel rules can result in disciplinary action for employees. Travel fraud can result in criminal prosecution of officials and/or employees.

Sample Forms

Reference Number:
MTAS-1172

Examples of travel forms below.

Authorization for Travel Form

Reference Number:
MTAS-1173

Authorization_for_Travel_form.png

Statement of Expense Claims Sample Form

Reference Number:
MTAS-1174

Reimbursement Rates for Travel

Reference Number:
MTAS-1109

Federal Rates Effective October 1, 2020

The following federal rates may also be found at https://www.gsa.gov/travel/plan-book/per-diem-rates [13]

Tennessee cities that elect to reimburse for official travel using the federal reimbursement rates should note that the federal government has changed per diem reimbursement rates **effective October 1, 2020**. Cities may wish to update their travel policies to reflect this change. The new rates are effective until September 30, 2021.

The FY 2020-21 standard CONUS (continental United States) rate for lodging remains at $96. The M&IE (meals and incidental expenses) rate remains at $55.

While the standard CONUS lodging remains at $96, the federal rate also changed for select cities in Tennessee. The table below lists those changes. Nashville again topped the list at $234 (it varies by month for Nashville - 4 different rates in all); with Brentwood/Franklin at $125, Memphis at $123, Chattanooga at $109 and Knoxville at $102 in lodging expense. M&IE rates for the first and last days of travel are calculated at 75 percent of the authorized daily rates.

City or Location	County	Lodging	M & IE	Total	MIE First/ Last Day at 75%
Brentwood/Franklin	Williamson	$ 125	$ 61	$ 189	$ 45.75
Chattanooga	Hamilton	$ 109	$ 61	$ 173	$ 45.75
Knoxville	Knox	$ 102	$ 56	$ 159	$ 42.00
Memphis	Shelby	$ 123	$ 61	$ 184	$ 45.75
Nashville	Davidson	$ 234	$ 61	$ 284	$ 45.75
All other Tennessee locations		$ 96	$ 55	$ 151	$ 41.25

Meals and incidental expenses are broken down as shown in the following table for locations in Tennessee.

M&IE	$ 55	$ 56	$ 61
Breakfast	$ 13	$ 13	$ 14
Lunch	$ 14	$ 15	$ 16
Dinner	$ 23	$ 23	$ 26
Incidentals	$ 5	$ 5	$ 5

These federal per diem rates apply to all locations within or entirely surrounded by the corporate limits of the key city as well as the boundaries of the county, including other municipalities within the county. Additionally, the federal standard mileage rate for reimbursements currently is 57.5 cents per mile beginning January 1, 2020.

Federal reimbursement rates for out-of-state travel vary from state to state. A complete listing of federal per diem rates for FY 2019 can be found at U.S. General Services Administration (www.gsa.gov) [14].

State of Tennessee Rates Effective September 19, 2018

The table below lists lodging rates for Tennessee cities for use by cities that elect to use the state of Tennessee reimbursement rates. The Tennessee reimbursement policy states that employees should use the U.S. General Services Administration CONUS rates provided by the federal government. The state travel policy, revised September 2018, and effective until modified or withdrawn, can be found in the Tennessee Comprehensive Travel Regulations [15]. The state of Tennessee general reimbursement rate for standard mileage effective August 1, 2011 is 47 cents per mile.

In-state Travel Lodging Reimbursement Rates

In-state lodging and meal rates follow the CONUS rates for Tennessee. The standard in-state lodging rate of $96 and $55 for meals should be used for all in-state locations not listed below.

County (City)	Maximum Lodging	Maximum Meals & Incidentals
Davidson (Nashville)	$234	$ 61
Shelby (Memphis)	$ 123	$ 61

County (City)	Maximum Lodging	Maximum Meals & Incidentals
Williamson (Brentwood/Franklin)	$ 125	$ 59
Hamilton (Chattanooga)	$ 109	$ 61
Knox (Knoxville)	$ 102	$ 56
All locations not listed above	$ 96	$ 55

Finance Office Review

Please review your city's travel policy to determine the applicable reimbursement rates for lodging and M&IE. If your city's travel policy makes reimbursements based on the state or federal rate, the changes noted above may take effect without any action by your city board. If, however, your city's policy establishes specific reimbursement rates for lodging and meals, you may need to amend the travel policy to reflect the above changes in regard to other travel expenses.

Federal and State Mileage Rates

Reference Number:
MTAS-1749

The Internal Revenue Service periodically announces changes in the optional standard mileage rate. The optional rate may be used to reimburse employees for the use of personal vehicles in the course of business activities.

The rate for 2021 is 56 cents cents per mile for all business miles driven on or after January 1, 2021. You can go to IRS Notice 2021-02 at https://www.irs.gov/pub/irs-drop/n-21-02.pdf [16] for details and further explanations.

Municipalities that reimburse employees for business use of their personal vehicles based on the federal optional standard rate should revise their travel policies to reflect this change if necessary.

For those municipalities that reimburse employees for business use based on the state of Tennessee mileage rate, the current rate effective August 1, 2011, is 47 cents per mile.

Links:
[1] https://www.sos.tn.gov/products/business-services/municipal-clerk-and-recorders-certification-and-continuing-education
[2] mailto:business.services@tn.gov
[3] mailto:hq@iimc.com
[4] http://www.iimc.com
[5] mailto:dana.deem@tennessee.edu
[6] http://www.mtas.tennessee.edu
[7] http://www.tamcar.org
[8] http://www.gfoa.org/fund-balance-guidelines-general-fund
[9] http://www.comptroller.tn.gov/la/AuditManual.asp
[10] https://www.comptroller.tn.gov/la/pdf/20160621_ICCManual_Complete2015.pdf
[11] http://www.gsa.gov/portal/content/105307
[12] https://www.tn.gov/content/dam/tn/finance/documents/fa_policies/policy8.pdf
[13] https://www.gsa.gov/travel/plan-book/per-diem-rates
[14] http://www.gsa.gov/portal/content/110007
[15] http://www.tn.gov/content/dam/tn/finance/documents/fa_policies/policy8.pdf
[16] https://www.irs.gov/pub/irs-drop/n-21-02.pdf