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THE UNIVERSITY of TENNESSEE
MUNICIPAL TECHNICAL ADVISORY SERVICE

In cooperation with the Tennessee Municipal League

TECHNICAL bulletin

August 28, 2007

ANNUAL REPORTING REQUIREMENTS OF THE STATE DIVISION OF LOCAL FINANCE

Al Major, Finance and Accounting Consultant

The State of Tennessee Comptroller of the Treasury, Division of Local Finance (DLF), is the agency responsible for oversight of city-issued debt. Cities that issue short-term debt (notes), under authority of *Tennessee Code Annotated* 9-21 and 12-10, must annually submit their budgets to the DLF for approval before the budget becomes official. This requirement applies to inter-fund loans, loans from banks, and loans from the Tennessee Municipal League's bond fund.

In contrast, cities that issue long-term debt (bonds) are not required to obtain ***prior*** approval from the DLF. However, every city must report on Form CT-0253 information to the state on all debt issued during the fiscal year that has a life of more than 12 months. This includes notes, bonds, lease purchases, and State Revolving Fund (SRF) loans.

As mentioned, for cities that have outstanding capital outlay notes, bond anticipation notes, or grant anticipation notes, the DLF requires the submission of certain budgetary documents. These documents must contain sufficient information for the state to determine if the city's budget is balanced on a cash basis and that enough appropriations are made to meet all expenses of operations and annual debt service requirements.

Following are the items your city must submit to comply with the DLF requirements. (Refer to the annual memorandum mailed to cities by the DLF about July 1 each year for other specific information required):

1. A copy of your budget ordinance or continuing resolution, after adoption, with any supporting schedules. This should be a certified copy.
2. Your detailed annual operating budget after passage. Use a three-column format showing last year's actual figures, this year's projected data, and next year's proposed budget. This should include detailed revenues, expenditures, and beginning and ending fund balance amounts.
3. Within the detailed expenditures of the budget, list separately each debt's interest and principal payments. This should agree with your debt amortization schedule.
4. Copies of any debt amortization schedules.
5. A copy of the budget notification published in the local newspaper is no longer required to be submitted to the DLF.
6. If you have a tax rate, calculate the projected revenue from property taxes. (Multiply the assessed value by your property tax rate, then divide the total by $100.) Include this information as a schedule that you send to the state.
7. Any significant budget amendments as they are passed throughout the fiscal year. Provide any supporting documentation and send it with a cover letter to the state. This should be a certified copy.
8. Enterprise Fund budgets typically do not list debt principal repayments. To comply with the state requirements, prepare your normal expense budget, then convert it to the cash basis. That is, at the end of your expense budget, remove any depreciation and amortization, and add a line for debt principal repayment. Interest payments are already properly recorded as an expense. This converts your accrual-based budget to a cash basis.
9. A copy of your capital budget if you have one. There is no requirement to produce a capital budget, but you should notify the state if you do not have one so that the budget approval process will not be slowed by the DLF staff looking for something that does not exist.

ANNUAL REPORTING REQUIREMENTS OF THE STATE DIVISION OF LOCAL FINANCE

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10. A city with a school system must submit information from the school budget. Sending the entire school budget to the DLF may not be necessary when selected pages may suffice, although the DLF sometimes requests more detailed information for its budget review process. Note that these requirements are only for the DLF. Other agencies may require separate reporting.
    - The school budget should be balanced. Therefore, the state would like to see the schools' budgeted total revenues and expenditures to make sure they are balanced. Send a summary school budget showing total revenues and expenditures, and fund balances.
    - The state would like to compare the schools' line item revenues to the city's line item appropriations. Send a copy of the page listing detailed revenues of the school budget. Note that a line item listing the city's appropriated expenditures for the schools should be part of the city budget, and this should match the revenues listed in the school budget.
    - Finally, annual interest and principal amounts of any school debt must be shown in either the school or city budget. Include a copy of this information in your packet.

These are the basic requirements. The DLF may ask for additional details. 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, contact your MTAS management consultant or the Division of Local Finance:

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The Municipal Technical Advisory Service (MTAS) is a statewide agency of The University of Tennessee Institute for Public Service. MTAS operates in cooperation with the Tennessee Municipal League to provide technical assistance services to officials of Tennessee's incorporated municipalities. Assistance is offered in areas such as accounting, administration, finance, public works, ordinance codification, and water and wastewater management.

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