technical bulletin

SHELF

ACCOUNTING PROCEDURES FOR STATE STREET AID FUND

William T. Chaffin

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MUNICIPAL TECHNICAL ADVISORY SERVICE

DIVISION OF UNIVERSITY EXTENSION
THE UNIVERSITY OF TENNESSEE

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Streets--Finance

ACCOUNTING PROCEDURES FOR STATE STREET AID FUND (ONE PENNY ACT OF 1953) FOR TENNESSEE MUNICIPALITIES

by

William T. Chaffin, C.P.A.

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Public Chapter No. 1 of the 1953 General Assembly, effective July 1, 1953, grants to municipalities the proceeds of one cent of the state gasoline tax. The enabling act, however, restricts expenditures to street aid purposes and requires that:

> "Each municipality shall keep records of receipts into and expenditures from its State Street Aid Fund, in accordance with sound municipal accounting practices, and shall have made at the end of each fiscal year an audit of the accounts of said Fund by a certified public accountant, and shall submit one certified copy of such audit to the Comptroller of the Treasury of the State to be reviewed for compliance with the provisions of this Act."

Just what will be the requirements in financial and accounting procedure for a municipality "charged with the duty of constructing and maintaining streets within its corporate boundaries?" First of all, each municipality must account for all of the funds received from the State under this act in a separate fund, designated as the "State Street Aid Fund." Although transactions pertaining to state street aid must be segregated in a separate special revenue fund, there is no need to open a separate bank account. Deposits may be made and checks written on the general bank account

previously used, provided that the expenditures are charged to the proper accounts in the State Street Aid Fund.

The act requires that the accounting be in accordance with sound municipal practices. What constitutes sound accounting practice for Tennessee municipalities? For years organizations such as the National Committee on Governmental Accounting, the Municipal Finance Officers' Association and statewide services such as MTAS have been studying the question as it applies to all units of local government throughout the country as well as in the State of Tennessee. Based upon the conclusions reached by these groups, sound municipal accounting would require adherence to generally accepted bookkeeping, budgeting, auditing, and reporting standards.

Minimum accounting standards for Tennessee municipalities include:

1. Use of double entry bookkeeping and a general ledger for each fund.

2. Classification of the accounts into balanced fund groups.

3. Use of a common terminology and a uniform classification of accounts throughout the budget, the accounts, and the financial reports.

4. Provision for adequate internal control measures and proper business procedures to safeguard assets and insure accuracy and efficiency in the preparation of records and reports.

5. Budgetary control of both revenues and expenditures.

6. Preparation of comprehensive monthly and annual reports for the administrative and legislative authorities and understandable annual reports for the general public.

7. An annual audit by a Certified Public Accountant.

It should be noted that the Act specifies a penalty for improper use of street aid funds. With adequate procedures for authorization and accounting, municipal officials would protect themselves from criticism and would reduce the cost of the necessary annual audit. Each municipality could simplify the annual audit and facilitate preparation of valuable financial reports by requiring:

1. The hiring of competent personnel.

2. Automatic control through the division of duties and use of mechanical devices.

3. Use of prenumbered checks backed by approved invoices and adequate supplementary information.

4. Authorization by proper officials of all purchases and expenditures.

5. Entry of all expenditures in a well designed columnar journal.

6. Effective use of budgetary control.

Moreover, municipal officials should supplement their formal accounting records with preliminary cost estimates of planned projects and statistical reports of completed projects. Long range planning makes possible the proper coordination of street expenditures with other municipal activities and facilitates the accumulation

of the necessary funds. With adequate information readily available, the proper decision according to the circumstances of each case can be made. With proper planning a municipality can avoid unnecessary increases in bonded indebtedness, often finding other financing methods more feasible in the long run. Possible alternative financing methods include the following, as well as combinations of two or more of the listed methods:

(1) Delaying activity until sufficient street aid funds have been accumulated,

(2) Borrowing temporarily from another fund,

(3) Financing street expenditures from general revenues,

(4) Special assessments on abutting property,

(5) Temporary financing through notes payable, and

(6) Issue of bonds.

The procedures to be followed in recording State Street Aid Fund transactions in specific municipalities necessarily would vary with the size of the municipality and with the extent of utilization of outside agencies to do the work.

Simplification is encouraged by provisions of the Act allowing municipalities to pay with street aid funds for street work contracts with the county or state highway departments or private contractors. This use of outside agencies for street work not only simplifies the municipality's record-keeping but also eliminates the necessity that heavy equipment be purchased and maintained for only occasional use. A municipality financing its entire street program with State

aid and relying on outside contractors to do the work can redesignate the present General Fund street construction and maintenance accounts as State Street Aid Fund accounts, adding new accounts in the fund for "Cash in Bank," "Contracts Payable," "Unappropriated Surplus," and "Grants-in-Aid for Highway Purposes."

In those municipalities which do more street work than the available street aid funds can finance or which do street work of a type which may not be paid from the gasoline tax allocation, it would be necessary to segregate expenditures chargeable against the State Street Aid Fund from other street expenditures. This would require some duplication of account titles in the General Fund and in the State Street Aid Fund. For example, both General Fund and State Street Aid Fund accounts would be needed for supervision, maintenance, and construction of bridges, viaducts, streets, sidewalks, curbs, and gutters. Expenditures applicable to State and Federal highways and those in excess of the amount available from gasoline tax allocation should be recorded in the General Fund accounts, with authorized expenditures up to the amount available being recorded in the State Street Aid Fund accounts.

To classify expenditures by funds accurately it is necessary to provide sufficiently detailed supplementary information to support the expense allocation actually used. Materials and supplies records which identify the project upon which the items were used

and payroll records showing the time each worker spent on each different job are necessary. One of the many types of time cards which would provide the necessary payroll information is reproduced on the following page.

No. 15 Week End. 7/11/53

Name James Doaks

Balance due shown below is correct and receipt is acknowledged.

Signature _____

		Reg. Time Hours	Overtime Hours	
7/6	A 524 - Street Cleaning	8.0		
7/7	A 524 - Street Cleaning	5.0		
	Chestnut St. repair E 522	3.0		
7/8	repair Main St. A 522	6.5		
	A 524 - Street Cleaning	1.5		
7/9	A 524 - Street Cleaning	8.0		
7/10	A 524 - Street Cleaning	8.0		
W.T.	2.60	Total Hrs.	40.0		
O.A.B.	.78	Rate	1.30		
Ins.	.60	Earnings	52.00		
Hosp.		Total Earnings			52.00
Other		Total Deductions			3.98
		Amount Due			48.02

It is assumed in this bulletin that the fund structure conforms to accepted account practice and meets the legal and administrative requirements. Equipment purchases and completed construction projects would, of course, be transferred periodically to the Fixed Asset Account Group. Bonded indebtedness would be accounted for in the Bonded Debt Account Group, with funds being transferred from the State Street Aid Fund to meet interest payments.

Because of the many advantages arising from the reporting of comparable financial data by cities in the same state, all municipalities should use some such detailed classification of accounts as that recommended by the Manual of Accounts for Tennessee Municipalities, a Municipal Technical Advisory Service publication written by W. H. Read and W. R. Snodgrass. The foregoing account titles and the following coding and chart of accounts have been adapted from that source, with illustrative journal entries being included to demonstrate methods of recording sample transactions. These journal entries should prove to be useful even though unusual transactions and individual preferences in recording and reporting techniques may lead to use of different detail accounts. For example, instead of the object accounts used below, some municipalities might use only three object accounts under each activity: labor, materials and supplies, and fixed charges.

The code numbers used in the following Chart of Accounts and journal entries indicate:

(1) the fund or account group by the initial letter or number and letter;

(2) the major account class by the second group of numbers; and

(3) the character and object classification, if any, by the third group of numbers.

Thus, the letter A designates a General Fund account, O a Special Assessment Fund, E the State Street Aid Fund (a special revenue fund), J the Fixed Asset Account Group, and K the Bonded Debt Account Group. In the second group of numbers:

01 to 59 are for asset accounts,

60 to 79 liabilities,

80 to 99 reserves and surplus,

100 to 199 revenue, and

200 and above for expenditures,

500 through 599 being the Public Service Department expenditure accounts.

The character and object expenditure account code numbers used are those listed on page 29 of the aforementioned Manual of Accounts for Tennessee Municipalities.

Each of the expenditure accounts (511 through 543) in the following Chart of Accounts could be broken down in the State Street Aid Fund Ledger into a series of accounts, one for each character or object classification listed. For example, Account IE 543-011 would be "Storm Sewer Construction Salaries and Wages - Regular Employees,"

Account 1E 543-012 would be "Storm Sewer Construction Salaries and Wages - Temporary Employees," 1E 543-04 "Storm Sewer Construction Motor Vehicle Operation," 1E 543-12 "Storm Sewer Construction Materials," etc.

STATE STREET AID FUND
Special Revenue Fund 1
Chart of Accounts

1E02	Cash on deposit
1E11	Stores inventory
1E27	Due from other funds
1E61	Vouchers payable
1E62	Notes payable
1E63	Contracts payable
1E81	Reserve for encumbrances
1E91	Unappropriated surplus
1E92.1	Encumbrances
1E141.5	Grants-in-aid for highway purposes
1E170	Transfers from other funds
1E511	Public service supervision
1E521	Street, sidewalk, curb and gutter supervision
1E522	" " " " " maintenance
1E523	" " " " " construction
1E531	Bridge, viaduct, and grade separation supervision
1E532	" " " " " maintenance
1E533	" " " " " construction
1E541	Storm sewer supervision
1E542	" " maintenance
1E543	" " construction

City of X

State Street Aid Fund
Journal Entries

The following journal entries are intended to illustrate some of the street work transactions recorded by the City of X during a portion of its first fiscal year in operation of the State Street Aid Fund. Instead of using outside contractors, X does its own street work, in this case setting up three separate projects for street construction and one bridge construction project.

X anticipates all revenue and expenses in its budget, recorded in the first entry in summary form with full details following the summarized entry. As can be seen from the detailed information available, the bridge construction project requires more money than would be available from the gasoline tax allocation. Bonds have been issued to finance this project, the $39,000 net proceeds of the bond issue being a non-revenue transfer from the bond fund.

1

	Estimated revenue	$47,400	
	Appropriations		$46,400
1E91	Unappropriated surplus		1,000
	To record adoption of budget		

Appropriations:

1E511	Public service supervision	600
1E521	Street, sidewalk, curb, and gutter supervision	300
1E522	" " " " " maintenance	1,500
1E523.1	" " " " " construction - First Street Project	1,900
1E523.2	Street, sidewalk, curb, and gutter construction - Maple St. project	6,600
1E523.3	Street, sidewalk, curb, and gutter construction - Forest Ave. project	3,500
1E532	Bridge, viaduct, and grade separation - Maintenance	1,100
1E533	Maple Street bridge construction	30,200
1E541	Storm sewer supervision	200
1E542	Storm sewer maintenance	500

Estimated Revenues:

1E141.5	Grants-in-aid for highway purposes	$ 8,400
1E170	Transfers from bond fund	39,000
		$47,400

2

1E02	Cash on deposit	$ 600	
1E141.5	Grants-in-aid for highway purposes		$ 600
	To record July gasoline tax allocation received from state		

3

1E02	Cash on deposit	$39,000	
1E170	Transfers from bond fund		$39,000
	To record cash received from bonds issued to build Main Street Bridge and purchase equipment		

1

	Estimated revenue	$47,400	
	Appropriations		$46,400
1E91	Unappropriated surplus		1,000
	To record adoption of budget		

Appropriations:

1E511	Public service supervision	600
1E521	Street, sidewalk, curb, and gutter supervision	300
1E522	" " " " " maintenance	1,500
1E523.1	" " " " " construction - First Street Project	1,900
1E523.2	Street, sidewalk, curb, and gutter construction - Maple St. project	6,600
1E523.3	Street, sidewalk, curb, and gutter construction - Forest Ave. project	3,500
1E532	Bridge, viaduct, and grade separation - Maintenance	1,100
1E533	Maple Street bridge construction	30,200
1E541	Storm sewer supervision	200
1E542	Storm sewer maintenance	500

Estimated Revenues:

1E141.5	Grants-in-aid for highway purposes	$ 8,400
1E170	Transfers from bond fund	39,000
		$47,400

2

1E02	Cash on deposit	$ 600	
1E141.5	Grants-in-aid for highway purposes		$ 600
	To record July gasoline tax allocation received from state		

3

1E02	Cash on deposit	$39,000	
1E170	Transfers from bond fund		$39,000
	To record cash received from bonds issued to build Main Street Bridge and purchase equipment		

4

	Expenditures	$ 1,000	
1E61	Vouchers payable		$ 1,000
	To record July street maintenance operations		
1E521-011	Supervision salaries and wages	$ 300	
1E522-011	Maintenance salaries and wages	500	
1E522-04	Maintenance - truck operation	200	
	Total	$ 1,000	

5

1E61	Vouchers payable	$ 1,000	
1E02	Cash		$ 1,000
	To record payment of July street maintenance vouchers payable		

6

1E92.1	Encumbrances		7,500	
1E81	Reserve for encumbrances			7,500
	To record order of street repair equipment:			
	Road machinery	$4,500		
	Motor vehicles	3,000		
	Total	$7,500		

7

1E81	Reserve for encumbrances	7,500	
	Expenditures	7,600	
1E92.1	Encumbrances		7,500
1E61	Vouchers payable		7,600
	To record purchase of above street repair equipment at an invoice cost of $100 in excess of the estimates.		

City of X

State Street Aid Fund
Balance Sheet
June 30, 1954

ASSETS

Cash	$1,094
Stores Inventory	140
Total Assets	$1,234

LIABILITIES, RESERVES, AND SURPLUS

Vouchers Payable	$ 220
Reserve for Encumbrances - Current Year	400
Unappropriated Surplus	614
Total Liabilities, Reserves, and Surplus	$1,234

City of X

State Street Aid Fund
Statement of Operations
For the Year Ended June 30, 1954

	Estimated	Actual	Over (Under*)
REVENUES:			
Grants-in-Aid for Highway Purposes	$ 8,400	$ 8,121	$279*
Transfers from Other Funds	39,000	39,000	-0-
Total Revenues	$47,400	$47,121	$279*
EXPENDITURES:			
Public Service Supervision	$ 600	$ 600	$-0-
Street and Sidewalk Supervision	300	300	-0-
Street and Sidewalk Maintenance	1,500	1,420	80*
Street and Sidewalk Construction	12,000	12,157	157
Bridge and Viaduct Maintenance	1,100	1,115	15
Maple Street Bridge Construction	30,200	30,226	26
Storm Sewer Supervision	200	200	-0-
Storm Sewer Maintenance	500	489	11*
Total Expenditures	$46,400	$46,507	$107
Excess of Revenues Over Expenditures	$ 1,000	$ 614	$386*

Any municipality which desires aid in setting up its State Street Aid Fund should request assistance from its regular auditor or from the Municipal Technical Advisory Service.

MTAS CONSULTING SERVICE

As a part of its program to provide technical assistance to city officials, the Municipal Technical Advisory Service at the University of Tennessee furnishes "technical consultative and field services to municipalities in problems relating to fiscal administration improvements and public works, and in any and all matters relating to municipal government."

MTAS services now available to all cities in Tennessee, upon request, include technical advice and assistance, by qualified consultants, on problems relating to:

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