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Accounting Procedures for State Street Aid Funds

William T. Chaffin

Municipal Technical Advisory Service

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ACCOUNTING PROCEDURES FOR STATE STREET AID FUND

William T. Chaffin

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JUNE 1953
NUMBER 18

MUNICIPAL TECHNICAL ADVISORY SERVICE
DIVISION OF UNIVERSITY EXTENSION
THE UNIVERSITY OF TENNESSEE
IN COOPERATION WITH THE TENNESSEE MUNICIPAL LEAGUE

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

by
William T. Chaffin, C.F.A.
Consultant on Municipal Finance and Accounting

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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

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  

Name: James Doaks  

Balance due shown below is correct and receipt is acknowledged.  

Signature:  

<table>
<thead>
<tr>
<th>Date</th>
<th>Hours</th>
<th>Description</th>
<th>Reg. Time Hours</th>
<th>Overtime Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>7/6</td>
<td>8.0</td>
<td>A 524 - Street Cleaning</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7/7</td>
<td>5.0</td>
<td>A 524 - Street Cleaning</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Chestnut St. repair E 522</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7/8</td>
<td>3.0</td>
<td>repair Main St. A 522</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>A 524 - Street Cleaning</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7/9</td>
<td>1.5</td>
<td>A 524 - Street Cleaning</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7/10</td>
<td>8.0</td>
<td>A 524 - Street Cleaning</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

W.T. 2.60  
O.A.B. 78  
Ins. 60  
Hosp.  
Other  

Total Hrs. 40.0  
Rate 1.30  
Earnings 52.00  
Total Earnings 52.00  
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, 0 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,"
<table>
<thead>
<tr>
<th>Account Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1E02</td>
<td>Cash on deposit</td>
</tr>
<tr>
<td>1E11</td>
<td>Stores inventory</td>
</tr>
<tr>
<td>1E27</td>
<td>Due from other funds</td>
</tr>
<tr>
<td>1E61</td>
<td>Vouchers payable</td>
</tr>
<tr>
<td>1E62</td>
<td>Notes payable</td>
</tr>
<tr>
<td>1E63</td>
<td>Contracts payable</td>
</tr>
<tr>
<td>1E68</td>
<td>Reserve for encumbrances</td>
</tr>
<tr>
<td>1E91</td>
<td>Unappropriated surplus</td>
</tr>
<tr>
<td>1E92.1</td>
<td>Encumbrances</td>
</tr>
<tr>
<td>1E141.5</td>
<td>Grants-in-aid for highway purposes</td>
</tr>
<tr>
<td>1E170</td>
<td>Transfers from other funds</td>
</tr>
<tr>
<td>1E511</td>
<td>Public service supervision</td>
</tr>
<tr>
<td>1E521</td>
<td>Street, sidewalk, curb and gutter supervision</td>
</tr>
<tr>
<td>1E522</td>
<td>&quot; &quot; &quot; &quot; &quot; &quot; &quot; &quot; &quot; maintenance</td>
</tr>
<tr>
<td>1E523</td>
<td>&quot; &quot; &quot; &quot; &quot; &quot; &quot; &quot; construction</td>
</tr>
<tr>
<td>1E531</td>
<td>Bridge, viaduct, and grade separation supervision</td>
</tr>
<tr>
<td>1E532</td>
<td>&quot; &quot; &quot; &quot; &quot; &quot; &quot; &quot; maintenance</td>
</tr>
<tr>
<td>1E533</td>
<td>&quot; &quot; &quot; &quot; &quot; &quot; &quot; &quot; construction</td>
</tr>
<tr>
<td>1E541</td>
<td>Storm sewer supervision</td>
</tr>
<tr>
<td>1E542</td>
<td>&quot; &quot; maintenance</td>
</tr>
<tr>
<td>1E543</td>
<td>&quot; &quot; construction</td>
</tr>
</tbody>
</table>
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.
Estimated revenue $47,400
Appropriations $46,400
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

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

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

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

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
Expenditures

1E61  Vouchers payable $1,000  $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
1E81 Reserve for encumbrances 7,500 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
1E92.1 Encumbrances 7,600 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
Stores Inventory
Total Assets

$1,094
$140
$1,234

LIABILITIES, RESERVES, AND SURPLUS

Vouchers Payable
Reserve for Encumbrances - Current Year
Unappropriated Surplus
Total Liabilities, Reserves, and Surplus

$220
400
614
$1,234

City of X

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

REVENUES:

Grants-in-Aid for Highway Purposes
Transfers from Other Funds
Total Revenues

$8,400
39,000
$47,400

Estimated
$279*
-0-

Actual
$8,121
39,000
$47,121

Over (Under*)
$279*
-0-

EXPENDITURES:

Public Service Supervision
Street and Sidewalk Supervision
Street and Sidewalk Maintenance
Street and Sidewalk Construction
Bridge and Viaduct Maintenance
Maple Street Bridge Construction
Storm Sewer Supervision
Storm Sewer Maintenance
Total Expenditures
Excess of Revenues Over Expenditures

$600
300
1,500
12,000
1,100
30,200
200
500
$46,400
$1,000

$600
300
1,420
1,215
1,115
30,226
200
489
$46,507
$614

$-0-
-0-
80*
157
15
26
-0-
11*
$107
$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:

ACCOUNTING  MUNICIPAL LAW
ANNUAL REPORTS  ORDINANCES
CHARTERS  ORGANIZATION
CODES  OFFICE PROCEDURE
ENGINEERING  PERSONNEL
FEDERAL PROGRAMS  PUBLIC RELATIONS
FINANCE  PUBLIC WORKS
MANAGEMENT  UTILITY MANAGEMENT

In cooperation with the Tennessee Municipal League.