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Financial Management under the General Law

Dear Reader:

The following document was created from the CTAS website (ctas.tennessee.edu). This website is maintained by CTAS staff and seeks to represent the most current information regarding issues relative to Tennessee county 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 county 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 CTAS website material.

Sincerely,

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Table of Contents

Financial Management under the General Law 3
Budgeting under General Law 3
Charitable Contributions 4
Accounting under General Law 4
Investment of County Funds 5

Financial Management under the General Law

Reference Number: CTAS-695

The day-to-day expenses relating to personnel, supplies, materials, utilities, contracted services, upkeep of facilities and other such costs are referred to as current operating expenses. To finance these functions the county levies and collects taxes and receives revenues from the state and federal governments. The county's financial management of these costs and revenues involves budgeting, accounting, purchasing, payroll, cash flow and related areas. Unless a county has elected to operate under a local option law or has adopted a private act, the county must manage its finances in accordance with the general law. General laws provide guidance in the areas of budgeting, accounting, purchasing, and investment of temporarily idle county cash funds.

The laws regarding purchasing for county governments are not uniform. There are state laws of general application, as well as local option laws that may apply. Also, private acts govern purchasing in some counties. County purchasing laws and procedures are covered under the Purchasing topic.

Budgeting under General Law

Reference Number: CTAS-697

Historically, there has been little guidance for those counties operating under the general budgeting laws. Legislation passed in 2016, however, now provides some guidelines for those counties. Public Chapter 1080 amended T.C.A. § 5-9-402 to provide a budget adoption timeline and procedures for counties operating under the general law. Pursuant to T.C.A. § 5-9-402, general budgeting law counties must follow the timeline set forth in the statute or adopt their own timeline. The statutory timeline can be found below. Should a county legislative body choose to adopt its own budget timeline, it must also receive the approval of the county board of education for the portion of the timeline established for the LEA. The provisions in § 5-9-402 do not apply to Davidson, Hamilton, Knox or Shelby counties.

Another provision enacted by Public Chapter 1080 creates a deadline for enactment of the education budget by operation of law. Now, under T.C.A. § 5-9-404, if the county legislative body and the county school board fail to agree on a budget for the county department of education by August 31, then, by operation of law, the budget for the county department of education will be equal to the minimum budget required to comply with the local match and maintenance of effort provisions of the BEP. If this occurs for three consecutive years, the budget for the third year will include a three percent increase in the required local funding amount for schools unless the LEA failed to comply with the applicable budgetary timeline. The provisions in § 5-9-404 do not apply to Davidson, Hamilton, Knox or Shelby counties.

Budget development under General Law is also covered under Operating Budgets of the Accounting/Budget/Finance tab.

Statutory Timeline for County Budget Law 2016 – Public Chapter 1080

All Funds except Education - In the absence of a locally adopted schedule and locally adopted procedures, the budgetary procedures for the county shall be as follows:

No later than **February 1** Forms for all budget requests shall be delivered to all departments, commissions, institutions, boards, offices, and agencies.

No later than **March 1** All departments, commissions, institutions, boards, offices, and agencies except the local board of education shall deliver the budget request to the county budget committee.

County budget committee shall vote upon the proposed budget and shall notify the department, commission, institution, board, office, or agency whether the county budget committee approves or rejects the proposed budget.

No later than **April 1** If approved, the county budget committee or the committee's designee shall immediately forward the proposed budget to the county legislative body for consideration.

If rejected, the department, commission, institution, board, office, or agency shall submit a revised budget proposal to the county budget committee within ten (10) business days after receipt of notice that the budget proposal was rejected.

Education - In the absence of a locally adopted schedule and locally adopted procedures, the budgetary procedures for the county shall be as follows:

No later than **May 1** Each **LEA** shall submit a proposed budget to the county budget committee; provided that, the LEA may amend the proposed budget after May 1.

No later than **June 1** County budget committee shall vote upon the proposed budget and shall notify the LEA whether the county budget committee approves or rejects the LEA's proposed budget.

If approved, the county budget committee or the committee's designee shall immediately forward the proposed budget to the county legislative body for consideration

If rejected, the LEA shall submit a revised budget proposal to the county budget committee within ten (10) business days after receipt of notice that the budget proposal was rejected

If the county budget committee of the local governing body rejects the first and second budget proposals from any department, commission, institution, board, office, or agency, then the third and any subsequent proposals shall be delivered directly to the county legislative body which shall approve or reject the proposal within ten (10) business days of the body's receipt of the amended proposal.

If rejected, the department, commission, institution, board, office, or agency shall submit a revised budget proposal to the county legislative body within ten (10) business days after receipt of notice that the budget proposal was rejected.

The budget must be approved on or before August 31, unless an extension is approved by the Comptroller's Office of State and Local Finance

And remember, if the county legislative body and the county school board fail to agree on a budget for the county department of education by August 31, then, by operation of law, the budget for the county department of education shall be equal to the minimum budget required to comply with the local match and maintenance of effort provisions of the BEP. If this occurs for three consecutive years, the budget for the third year shall include a three percent increase in the required local funding amount for schools unless the LEA failed to comply with the applicable budgetary timeline. However, this increase shall not be required if during any of those three years the school board failed to submit its budget proposals in accordance with the timeline above. This section does not apply to Hamilton, Knox, Davidson and Shelby counties.

Charitable Contributions

Reference Number: CTAS-696

The county legislative body may appropriate general funds for the financial aid of any nonprofit charitable organization or any nonprofit civic organization having federal tax exempt status under Section 501(c)(4) of the Internal Revenue Code and chambers of commerce qualifying under Section 501(c)(6) of the Internal Revenue Code. A nonprofit organization requesting assistance must submit financial reports to the county clerk and these are available for public inspection. To satisfy this requirement, nonprofits may submit a copy of their annual audit or an annual report detailing all receipts and expenditures in a form prescribed by the comptroller. The county legislative body is mandated to provide guidelines for the expenditure of these funds. Notice must be given in a newspaper of general circulation in the county of the intent to make an appropriation to a nonprofit but not charitable organization before the appropriation is made. T.C.A. § 5-9-109.

Also, a county may receive charitable contributions for the general fund. If funds are given subject to certain conditions as to their use, the county legislative body must approve acceptance of the gift and it must be used for such purposes. If funds are restricted, the money is placed in the county general fund and appropriated according to normal budgetary process. If the gift is personal or real property that is subsequently sold by the county, the revenue from such sale must be deposited in the general fund. T.C.A. § 5-8-101.

Accounting under General Law

Reference Number: CTAS-698

The state comptroller of the treasury, with the approval of the governor, is required to devise a modern and effective bookkeeping and accounting system to be used by all county officials and agencies handling the revenues of the state or its political subdivisions, and is to prescribe the minimum standards required under that system. T.C.A. § 5-8-501. Each county and agency of the county is required to meet these standards; if it fails to do so, the county is obligated to pay the actual cost of auditing above the standard fee prescribed in T.C.A. § 9-3-210 (the standard fee is \$0.36 per person in the county with an annual 3% increase beginning July 1, 2017). T.C.A. §§ 5-8-502, 5-8-503. Each department must file an annual financial report for the fiscal year ending June 30 with the county mayor and the county clerk, who provides copies to members of the county legislative body. T.C.A. § 5-8-505. The report must be filed before the first Monday in September upon a form provided by the comptroller. T.C.A. § 67-5-1902. There is no longer a publication requirement for these financial reports.

There are also some specific statutorily required accounting procedures for certain county offices and departments. Accounting procedures for the county mayor are found in T.C.A. § 5-6-108; for the county education department, see T.C.A. §§ 49-2-203 and 49-2-301; and for the county highway department, see T.C.A. § 54-7-113.

Under T.C.A. § 9-2-102, counties that are subject to the comptroller's audit requirements and that handle public funds must have their official accounting records closed and available for audit no later than two months after the close of the fiscal year.

Investment of County Funds

Reference Number: CTAS-699

Each county is directed by general state law to invest all idle county funds to the maximum practical extent. T.C.A. § 5-8-301(a). Counties are authorized to invest in instruments designated by general law as a safe temporary medium. These temporary investments must either be approved by the county legislative body, be in compliance with an investment policy adopted by the county legislative body, or be approved by an investment committee appointed by the county legislative body. T.C.A. §§ 5-8-301, 5-8-302.

In counties that have not adopted the County Financial Management System of 1981, the county legislative body may create an investment committee to determine the investment of idle county funds from the statutory list of approved investments. The number of members on this committee and the mode of selection is according to resolution of the county legislative body. T.C.A. § 5-8-302.

In counties that have adopted the optional County Financial Management System of 1981, the county legislative body may establish an investment committee composed of five members appointed by the county legislative body. The members may or may not be members of the county legislative body. If the county has adopted the 1981 law, the county legislative body may choose to have the financial management committee perform the functions of the investment committee. The investment committee under the 1981 law establishes and approves policies and procedures for cash management and investing idle cash funds in the investments authorized by law and the director of finance has the authority to make the investments within the guidelines set by law and the committee's policies. T.C.A. §§ 5-21-105(e), 5-21-107(a). The organization of the investment committee in counties with a county charter or metropolitan government charter may differ from that provided by the general law.

There are three categories of idle county funds that may be invested: funds derived from bond proceeds; funds from the sale of assets, settlements, or other infrequent occurrences; and other idle county funds. Under T.C.A. § 5-8-301, all three categories may be invested in any of the following manners:

1. Bonds, notes, or treasury bills of the U.S. as well as other obligations guaranteed by the U.S. or its agencies;
2. Deposits of funds into state and federally chartered banks and savings and loan associations, provided that these investments are properly secured;
3. Obligations of the United States or its agencies under a repurchase agreement for a shorter time than the maturity date of the security itself if the market value of the security itself is more than the amount of funds invested. Counties may invest in repurchase agreements only if the comptroller of the treasury or the comptroller's designee approves repurchase agreements as an authorized investment and if such investments are made in accordance with procedures established by the state funding board;
4. The state investment pool;
5. State bonds, if they have a rating of A or higher by any nationally recognized statistical rating organization as identified by the United States securities and exchange commission;
6. Nonconvertible debt securities of the following issuers provided such securities are rated in the highest category by at least two nationally recognized statistical rating organizations as identified by the United States securities and exchange commission:
 - The Federal Home Loan Bank;
 - The Federal National Mortgage Association;
 - The Federal Farm Credit Bank;
 - The federal home loan mortgage corporation; and
 - Any other obligations that are guaranteed as to principal and interest by the United States or any of its agencies.

7. The county's own bonds or notes issued in accordance with Title 9, Chapter 21.

Counties with population in excess of 150,000 may invest idle funds in prime banker's acceptances that are eligible for purchase by the federal reserve system and prime commercial paper that is rated at least A1 or equivalent by at least two nationally recognized statistical rating organizations as identified by the United States securities and exchange commission. T.C.A. § 5-8-301.

Additionally, counties with a population of 20,000 to 150,000 may invest idle funds in prime commercial paper if it is rated in the highest category by at least two nationally recognized statistical rating organizations as identified by the United States securities and exchange commission and the paper has a remaining maturity of 90 days or less. T.C.A. § 5-8-301.

Counties may invest funds held by them with a bank or savings and loan association with a branch in Tennessee under certain conditions, including FDIC insurance of the full amount of principal and interest or collateralization of amounts not so insured. T.C.A. § 9-1-118.

There are other restrictions on the investment of specified county funds, as well as requirements for protection of county funds through proper collateralization of the investment. T.C.A. § 5-8-301. The advice of the state director of local finance, CTAS county government consultant, or county attorney will be helpful in determining available investment options, the correct procedures for making such investments, and the proper collateral to protect county investments.

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