

Funds

Dear Reader:

The following document was created from the MTAS website ([mtas.tennessee.edu](http://www.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,

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Funds

Reference Number: MTAS-1791

City and state laws dictate a large portion of the budget process. There are also other guidelines cities must follow. The Government Finance Officers Association publishes a book titled 'Governmental Accounting, Auditing, and Financial Reporting' (GAAFR), commonly known as "The Blue Book". This book outlines standards for governmental agencies to follow known as "generally accepted accounting principles" (GAAP). Among these principles is the formation of funds. Per the 'Fiscal Administration, Analysis and Applications for the Public Sector' by John L. Mikesell, the definition of a "fund" is:

... an accounting device established to control receipt and disbursement of income from sources set aside to support specific activities or attain certain objectives. In the accounts of individual governments, each fund is treated as a distinct fiscal entity.

In simpler terms, a fund is a smaller record of incoming and outgoing money that is divided by type of activity.

Governmental Funds

Reference Number: MTAS-1792

According to the GAAFR (the Blue Book), governmental funds are "used to account for activities primarily supported by taxes, grants, and similar revenue sources." Within the category of Governmental Funds, there are five types: General Fund, special revenue funds, debt service funds, capital projects funds, and permanent funds.

While there is only one General Fund, which is the primary operating fund, there can be several of each of the other types of governmental funds. For example, you may have multiple special revenue funds for specific revenue sources that are restricted for specific purposes: State Street Aid Fund, Drug Fund, etc. You also may have multiple debt service funds, such as those that account for long-term debt: General Obligation Bond Fund, General Debt Service Fund, etc.

Likewise, the city may have multiple capital projects funds that are set aside for acquisition and/or construction of capital facilities and other capital assets: City Hall Capital Project Fund, Fire Truck Capital Project Fund, Ballpark Improvement Fund, etc. Finally, there can be multiple permanent funds: Cemetery Perpetual Care Fund and School Endowment Fund, for example.

Proprietary Funds

Reference Number: MTAS-1793

Proprietary funds are those that are most like funds in the private sector. According to GAAFR (the Blue Book), proprietary funds are "used to account for activities that receive significant support from fees and charges." There are two types of proprietary funds: enterprise funds and internal service funds.

As defined by GAAFR, enterprise funds are used to "report activities for which a fee is charged to external users for goods or services." Examples include Water Fund, Sewer Fund, Natural Gas Fund, Airport Fund, and possibly the Solid Waste Fund.

Internal service funds are used to track the activity provided by one department for another department within the government itself. A common example is the city garage charging various city departments for its services. The benefit to tracking the expenditures this way is to encourage efficiency. If a department is being charged for an otherwise "free" activity, the department using the service will be less likely to abuse it.

Fiduciary Funds

Reference Number: MTAS-1794

According to the GAAFR (the Blue Book), fiduciary funds are "used to account for resources that a government holds as a trustee or agent on behalf of an outside party that cannot be used to support the

government's own programs. The fiduciary fund category includes pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds and agency funds." Examples of fiduciary funds a city may have include a law enforcement trust fund and firemen's pension fund.

There is, in effect, no limit on the number of funds that a city can establish. However, since each new fund adds to the complexity of the city's financial operations and takes away flexibility, it is advisable to keep the number of funds as low as possible within legal and financial requirements.

DISCLAIMER: The letters and publications written by the MTAS consultants were written based upon the law at the time and/or a specific sets of facts. The laws referenced in the letters and publications may have changed and/or the technical advice provided may not be applicable to your city or circumstances. Always consult with your city attorney or an MTAS consultant before taking any action based on information contained in this website.

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