



Defining Governmental Funds

Dear Reader:

The following document was created from the MTAS website ([mtas.tennessee.edu](https://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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Table of Contents

Defining Governmental Funds	3
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Reference Number: MTAS-579

The definitions of special revenue, capital projects and debt services funds were changed or clarified in this accounting standard. A special revenue fund can only be used if a significant amount of revenue supporting the activities is restricted or committed for that specific purpose (other than debt service or capital projects). Restrictions must be imposed by an external source such as the state or federal government. A common example is the state street aid fund, which is supported by revenues restricted by state law to be spent on specific street-related expenditures. The restricted source of revenue has to be considered a substantial source of revenue for the fund. A committed revenue source would be one that the full governing board has passed a resolution committing that stream of revenue for a specific purpose and that constitutes a substantial funding source of the fund.

Capital projects funds may include expenditures for general capital purchases. In the past capital projects funds have been used primarily for major construction projects. Only general fund capital projects should be accounted for in capital project funds, any capital projects done proprietary funds (i.e. utilities funds) should be accounted for in their respective funds.

Debt service funds are to be used when legally required or when resources are being accumulated to pay for principal and interest on long-term debt. This is simply a clarification from previous standards.

Practical Suggestions

Fund Types

Some special revenue funds currently established by governments may not meet the definition of a special revenue fund under GASB 54. Tennessee law currently requires that solid waste operations be accounted for in either a special revenue fund or if an operating landfill or incinerator in a proprietary fund. Fees charged for solid waste services are not considered restricted and are not committed unless the governing body adopts a resolution committing its use for only solid waste purposes. Any existing special revenue fund that does not meet the new definition must be combined into the general fund at the end of the fiscal year for reporting purposes. In other words, governments should continue to account for solid waste operations in a separate fund during the year. The Comptroller of The Treasury, Division of Local Government Audit issued the following guidance:

“The activities being accounted for in a proprietary fund are not impacted. However, activities being accounted for in special revenue funds will be affected. Solid waste activities will not meet the criteria for being reported in a special revenue fund. To bridge the gap, the accounting records will still account for solid waste activities as they have in the past. However, for financial reporting purposes, the activities will be rolled into the general fund. A supplemental schedule should be created to reflect the activities to demonstrate compliance with T.C.A.”

The complete directive from Division of Local Government Audit can be found in the Audit Manual, www.comptroller.tn.gov/la/AuditManual.asp [1]

Links:

[1] <http://www.comptroller.tn.gov/la/AuditManual.asp>

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