



Municipal Technical Advisory Service
INSTITUTE *for* PUBLIC SERVICE

Published on *MTAS* (<https://www.mtas.tennessee.edu>)

February 27, 2020

Proprietary 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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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.

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Source URL (retrieved on 02/27/2020 - 7:43am): <https://www.mtas.tennessee.edu/reference/proprietary-funds>



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