



Funding Water and Sewer Operations

Dear Reader:

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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

Funding Water and Sewer Operations.....	3
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Funding Water and Sewer Operations

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Governmental water and sewer operation should be established as an enterprise fund. In Government Accounting, Auditing, and Financial Reporting (Chicago: National Committee on Governmental Accounting Publications No. 18, 1968), "enterprise fund" is defined as:

... a fund established to account for operations (a) that are financed and operated in a manner similar to private business enterprises — where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The definition of an enterprise fund implies that sufficient user fees should be established to ensure that the utility can operate on a self-sustaining basis. The major source of revenue for water and sewer funds is user fees.

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