





Conor Baldwin
Chief Financial Officer

MEMORANDUM

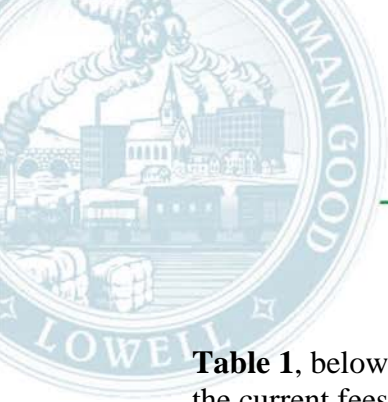
TO: Thomas A. Golden, Jr., City Manager 
FROM: Conor Baldwin, Chief Financial Officer 
CC: Kelly Oakes, City Auditor
DATE: June 21, 2022

SUBJECT: MOTION RESPONSE - 6/1/2022 - C. Scott - Req. City Mgr. Investigate The Feasibility Of Creating An Enterprise Fund For Trash/Recycling.

The enterprise fund statute, G.L. c. 44, § 53F½, was initially enacted in 1986. Before then, communities used special revenue funds authorized by various general laws or special acts to separately account for their business type services. These special revenue funds were limited, however, with regard to the services and costs covered. The funds were most commonly authorized for water, gas, and electric utility departments and used primarily to account for annual operating costs, not the indirect costs, capital improvements or capital assets of the service.

An enterprise fund gives communities the flexibility to account separately for all financial activities associated with a broad range of municipal services. It establishes a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. Revenues and expenses of the service are segregated into a fund separate from all other governmental activities. Once adopted, an enterprise fund retains investment income and surplus and all investment earnings and any operating surplus (actual revenues in excess of estimates and appropriations in excess of expenses) are retained in the enterprise fund rather than closed to the general fund at fiscal year-end. Surplus certified by the Director of Accounts as available is called “retained earnings”. Retained earnings require appropriation by the City Council. Conversely, a retained earnings deficit for the period ending June 30 in the enterprise fund must be funded and reported in the next fiscal year’s Tax Rate Recap.

A community may account for certain services in the general fund, special revenue or enterprise fund. There are several advantages of an enterprise fund, including: that it identifies a total service cost by consolidating direct operating, direct capital, and indirect costs (e.g., enterprise-related costs appropriated in the general fund operating budget); it also helps a community to readily identify a total service cost and determine funding sources. The total service cost may also include a subsidy from the general or other funds. Trash and recycling services are an eligible municipal charge for enterprise fund accounting.



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Table 1, below, summarizes an enterprise fund budget for Solid Waste & Recycling, based on the current fees and including all incidental expenses—both direct and indirect—associated with the service delivery operation.

Table 1 - Baseline Scenario

SCENARIO 1 – BASELINE (CURRENT FEE/ TAX SUBSIDY)		
<u>REVENUE</u>		
User Fees @ \$125/household ¹²	\$	3,125,000
Grants	\$	68,000
Purple Bag Revenue	\$	20,000
Interest Earned	\$	30,000
TOTAL REVENUE	\$	3,243,000
<u>EXPESNES</u>		
Salaries & Wages - Direct ³	\$	188,658
Waste Management Collection	\$	4,040,000
Wheelabrator Disposal	\$	2,060,000
Excess Contamination - Recycling	\$	342,000
Indirect Costs ⁴	\$	39,940
Debt Service	\$	-
Hazardous Waste Day Collection	\$	26,000
TOTAL COST	\$	6,696,598
Surplus/ Deficit	\$	(3,453,598)

¹ City of Lowell - Code of Ordinances § 270-4 (Solid Waste & Recycling; Fees);

² Approximately 25,000 residential customers;

³ S&W for 3 FTE

⁴ Estimated indirect costs based on City of Lowell Enterprise Fund indirect policy.



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Table 2, below, summarizes an enterprise fund budget for Solid Waste & Recycling and presents a self-sufficient budget model, including an amount budgeted for capital investments in the departmental equipment and operation, including purchase of new trash and recycling carts for residents.

Table 2 - Self Supporting Scenario

SCENARIO 2 - SELF-SUFFICIENT		
<u>REVENUE</u>		
User Fees @ \$268/household	\$	6,700,000
Grants	\$	68,000
Purple Bag Revenue	\$	20,000
Interest Earned	\$	30,000
TOTAL REVENUE		\$ 6,818,000
<u>EXPENSES</u>		
Salaries & Wages - Direct	\$	188,658
Waste Management Collection	\$	4,040,000
Wheelabrator Disposal	\$	2,060,000
Excess Contamination - Recycling	\$	342,000
Indirect Costs	\$	39,940
Debt Service ⁵	\$	109,000
Hazardous Waste Day Collection	\$	26,000
TOTAL COST		\$ 6,805,598
Surplus/ Deficit	\$	12,402

⁵ Calculated debt service on \$500,000 capital investment (assumption: 5 yr. term/ 3% interest)



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The Bureau of Accounts recommends that commencement begin at the start of a fiscal year. If a commencement date is absent, the Bureau recommends that the enterprise commence on the following July 1. However, the Bureau will allow an enterprise fund to commence after July 1 if adopted after July 1, but only prior to Bureau certification of the tax rate. After that time, commencement of an enterprise fund must be deferred to July 1 of the next fiscal year. Once adopted, the City Auditor would begin the process of establishing the separate fund on the city's chart of accounts and identifying the assets (capital items and infrastructure), liabilities and equity in other funds if voted by the legislative body to be transferred to the enterprise fund. The City must operate the enterprise fund for a minimum of three years before the provisions may be rescinded like any local adoption law. (G.L. c. 4, § 4B). A copy of the enterprise fund manual is enclosed, for reference. After at least three years, the City Council, upon recommendation by the City Manager, may terminate the enterprise fund. It is the recommendation of the finance department that this matter be referred to the finance subcommittee for further deliberation.



DLS

DIVISION OF LOCAL SERVICES
MA DEPARTMENT OF REVENUE

Geoffrey E. Snyder
Commissioner of Revenue

Sean R. Cronin
Senior Deputy Commissioner

Informational Guideline Release

Bureau of Accounts
Informational Guideline Release (IGR) No. 21-11
April 2021

Supersedes IGR 2008-101 and Inconsistent Prior Written Statements

ENTERPRISE FUNDS

G.L. c. 44, § 53F½

These guidelines provide guidance to local officials on the use of an enterprise fund under [G.L. c. 44, § 53F½](#) to separately account for municipal services of a proprietary nature, *i.e.*, those services provided to individual customers for a charge in a manner similar to private business.

Topical Index Key:

Accounting Policies and Procedures
Special Funds

Distribution:

Accountants/Auditors
Selectboards/Mayors
City/Town Managers/Exec. Secretaries
Finance Directors
City/Town Councils
Treasurers
City Solicitors/Town Counsels

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ENTERPRISE FUNDS

G.L. c. 44, § 53F½

SUMMARY:

These guidelines provide guidance to local officials on the use of an enterprise fund under [G.L. c. 44, § 53F½](#) to separately account for municipal services of a proprietary nature, *i.e.*, those services provided to individual customers for a charge in a manner similar to private business.

The guidelines prescribe uniform accounting standards for enterprise fund revenues and expenditures. They also set forth the policies that apply to the review of enterprise budgets for tax rate setting purposes. [G.L. c. 44, §§ 38 and 43](#); [c. 59, § 23](#).

These guidelines include a significant statutory change, effective January 15, 2015, when [G.L. c. 44, § 53F½](#) was amended to allow a city or town to adopt an enterprise fund for “cable television public access.” [St. 2014, c. 352](#). See also [IGR 2016-102, Cable Television Public, Educational And Governmental Access Special Revenue Funds](#).

These standards and policies are effective and supersede those found in IGR 2008-101, the June 2008 Enterprise Fund Manual, and any prior written inconsistent publications or statements.

BUREAU OF ACCOUNTS

MARY JANE HANDY, DIRECTOR

GUIDELINES:

I. INTRODUCTION

A. Brief History

The enterprise fund statute, [G.L. c. 44, § 53F½](#), was initially enacted in 1986. Before then, communities used special revenue funds authorized by various general laws or special acts to separately account for their business type services. These special revenue funds were limited, however, with regard to the services and costs covered. The funds were most commonly authorized for water, gas and electric utility departments and used primarily to account for annual operating costs, not the indirect costs, capital improvements or capital assets of the service.

B. What is An Enterprise Fund

An enterprise fund gives communities the flexibility to account separately for all financial activities associated with a broad range of municipal services. It establishes a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. Revenues and expenses of the service are segregated into a fund separate from all other governmental activities. A separate legal entity is not established through the adoption of enterprise fund accounting. (See Uniform Massachusetts Accounting System (UMAS) chapter 12 for more information including illustrative journal entries).

C. Why Adopt an Enterprise Fund

A community may account for certain services in the general fund, special revenue or enterprise fund. Advantages of an enterprise fund include that it:

- Identifies a total service cost – Consolidating direct operating, direct capital, and indirect costs (e.g., enterprise-related costs appropriated in the general fund operating budget) helps a community to readily identify a total service cost and determine funding sources. The total service cost may also include a subsidy from the general or other funds.
- Provides useful management information – Consolidating revenues, expenses and operating performance of the fund provides a community with useful decision-making information regarding user charges and fees and a subsidy if necessary. The community can also include the enterprise capital assets and infrastructure as assets and recognize the annual depreciation of these assets in audited financial statements.
- Retains investment income and surplus – All investment earnings and any operating surplus (actual revenues in excess of estimates and appropriations in excess of expenses) are retained in the enterprise fund rather than closed to the general fund at fiscal year-end. Surplus certified by the Director of Accounts as available is called “retained earnings”. Retained earnings require appropriation by the community’s legislative body and have certain other use restrictions as will be noted in these guidelines.

D. What Governmental Entities May Adopt an Enterprise Fund

Only Massachusetts cities and towns may adopt an enterprise fund pursuant to [G.L. c. 44, § 53F½](#). Regional schools and special purpose districts may not adopt an enterprise fund, unless permitted by special legislation.

E. For What Services Can A Community Adopt An Enterprise Fund

Enterprise funds may only be established, “for a utility, cable television public access, health care, recreational or transportation **facility**.” (Emphasis added.) Examples include:

- Public utilities – water, sewer, combined water-sewer, stormwater, trash disposal;
- Cable television public access (See [IGR 2016-102](#));
- Health care – ambulance service, hospitals, nursing homes;
- Recreation – skating rinks, pools, golf courses, amusement parks, beaches; and
- Transportation – airports, dock and wharf facilities.

An enterprise fund requires a **facility** of the types allowed.

II. ADOPTING / RESCINDING AN ENTERPRISE FUND

A city or town may adopt an enterprise fund by vote of the legislative body, subject to the local charter. Each enterprise fund must be adopted separately with its own vote. This allows the legislative body to identify and evaluate each enterprise on its own merits.

The language of the vote should clearly state what the service is and when the fund will commence. The following is sample language to adopt an enterprise fund.

“To see if the (city or town) will accept the provisions of [Chapter 44, § 53F½](#) of the Massachusetts General Laws establishing (the service) as an enterprise fund effective fiscal year (year).”

The Bureau of Accounts recommends that commencement begin at the start of a fiscal year. If a commencement date is absent, the Bureau recommends that the enterprise commence on the following July 1. However, the Bureau will allow an enterprise fund to commence after July 1 if adopted after July 1, but only prior to Bureau certification of the tax rate. After that time, commencement of an enterprise fund must be deferred to July 1 of the next fiscal year.

Once adopted, the community begins the process of establishing the separate fund on its accounting records and identifying the assets (capital items and infrastructure), liabilities and equity in other funds if voted by the legislative body to be transferred to the enterprise fund.

The community must operate the enterprise fund for a minimum of three years before the provisions may be rescinded like any local adoption law. [G.L. c. 4, § 4B](#). After at least three years, a legislative body, subject to the local charter, may terminate the enterprise fund. Similar to when it was adopted, the new article should specify when this would become effective as shown below.

“To see if the (city or town) will revoke the provisions of Chapter 44, § 53F½ of the Massachusetts General Laws, ceasing (the service) as an enterprise fund effective fiscal year (year).”

Once it ceases operation and all of the current liabilities are accounted for, the community would close any fund balance to the general fund and transfer any assets, debt and long term liabilities to the general fund and to the appropriate account groups.

III. THE ENTERPRISE FUND BUDGET

The entity responsible for operating the enterprise must submit to the local executive authority a proposed line item budget “no later than one hundred and twenty days prior to the beginning of each fiscal year” (March 1). The budget is submitted to the community’s executive authority by the entity responsible for operation of the enterprise like any other departmental request for review and appropriation. When preparing the budget, revenue sources and appropriations must be clearly stated in detail and enterprise-related costs already included for appropriation in the general fund operating budget must not be included for appropriation in the enterprise fund budget.

The mayor or other executive authority makes a recommendation to the appropriate city/town legislative authority for approval. The finance committee may also make a similar recommendation.

The budget is subject to the appropriation process. Any transfers among the enterprise fund’s line-item appropriations require further legislative body action or the alternative method if during the last two months of any fiscal year. (See [IGR 2017-13, Appropriation Transfers.](#))

A. Revenues of an Enterprise Funds

Revenues may be appropriated by the community’s legislative body until the tax rate is certified by the Bureau of Accounts. An increase in estimated revenues above prior fiscal year actual revenues must be supported in writing to the Bureau of Accounts using rate analysis, usage data, votes to establish increased rates, new rate implementation dates, etc., for tax rate certification purposes. Any surplus stays in the enterprise fund at fiscal year-end. Revenues include:

1. User charges and fees - amounts paid by those who use the service, including late charges, fees and interest incurred in the collection process.
2. Rental receipts from the leasing of enterprise assets belong to the enterprise fund. If the property was acquired with enterprise fund revenue, or it is currently maintained by enterprise fund revenue or debt service on the property is being paid by the enterprise, then lease revenues are credited to the enterprise fund. If the property was transferred to the enterprise fund or paid for with general fund revenue and the property is not dedicated to the enterprise service’s use, then the lease revenue is general revenue and should be credited to the general fund. See FAQ # 15 below.

3. Other enterprise revenue - includes state funding (Sewer Rate Relief) and grants (Massachusetts Clean Water Trust).
4. Investment income - interest earned by the fund is retained in the fund rather than closed to the general fund.

B. Available Funds of an Enterprise Fund

The following available funds may be appropriated by the community's legislative body at any time during the fiscal year if available. Other available funds may be allowed by special legislation.

1. Net premiums and accrued interest - received on bonds or notes sold on or after November 7, 2016, regarding debt financed by an enterprise fund which are not used to reduce the cost of the borrowing are *reserved for appropriation* for enterprise capital projects for which a loan has been, or may be, authorized for an equal or longer period of time than the loan for which the premiums were received. (See [IGR 17-21](#), Section V.)
2. Estimated sewer assessments under [G.L. c 83, § 15B](#) – reserved for appropriation for payment of costs of constructing the facilities funded by the assessments or to pay the principal and interest on any debt issued in connection with the construction of the facilities, until all such costs and debt service obligations have been paid in full. When all obligations are paid in full, the remaining balance closes to unreserved retained earnings.
3. Betterment and special assessment payments under [G.L. c. 44, § 53J](#) – when money is borrowed to pay for enterprise improvements for which the betterments or special assessments are assessed, the payments and any interest earned thereon are reserved for appropriation to pay debt service. Any surplus remaining after such debt is repaid closes to unreserved retained earnings.
4. Closing and post-closing funds reserved for an existing operating solid waste facility pursuant to [G.L. c. 44, § 28C](#).
5. Special purpose article(s) - the unspent and unencumbered balance, as voted by the community's legislative body.
6. Special purpose stabilization fund – A municipality may establish a special purpose stabilization fund under [G.L. c. 40, § 5B](#) for an enterprise; however, the municipality must track contributions from the enterprise to the stabilization fund and return any such funds to the enterprise if the purpose of the stabilization fund is later changed.
7. Budgeted surplus - the excess of budgeted estimated enterprise revenues and appropriated enterprise available funds over (a) direct operating and capital cost appropriations and (b) indirect cost appropriations in the general fund operating budget allocated to the enterprise. This surplus may be appropriated to the enterprise fund budget and may be further appropriated for current enterprise operating and/or capital

costs only, from July 1 to June 30. Any unspent balance closes to the enterprise fund at fiscal year-end. (See Tables showing budget examples.)

Note: If budgeted surplus has been appropriated to the enterprise fund budget as indicated above and if retained earnings are subsequently certified in deficit, the appropriation of the budgeted surplus, if sufficient at that time, may be rescinded or appropriated directly by the legislative body to help fund the retained earnings deficit.

8. Retained Earnings - the portion of Unreserved Retained Earnings that is certified by the Bureau of Accounts as available for appropriation. Certification requires submission of a June 30 balance sheet accompanied by all information necessary to calculate free cash in the general fund and retained earnings in the enterprise fund. Once certified, retained earnings may be appropriated through the following June 30 and no appropriation may be in excess of the certified amount.

Retained earnings may only be appropriated to:

- a. fund direct costs of the enterprise for the current fiscal year;
- b. fund costs appropriated in the general fund operating budget and allocated to the enterprise for the current fiscal year;
- c. reimburse to the general or other fund for subsidized capital costs of the enterprise not already reimbursed for the two full, immediately prior, fiscal years.
- d. a special purpose stabilization fund established for enterprise purposes (See IGR Section III-B-6 above.)

Retained earnings appropriated specifically to reimburse the general fund for subsidized capital costs as indicated above, should not be reported on page 4 of the Tax Rate Recap (similar to a vote from free cash to reduce the tax rate) or on Schedule A-2. Instead, the amount should be reported in Part IIID, line 4 of the Tax Rate Recap. If so reported, city/town Clerks are advised to provide a copy of the vote to the Bureau of Accounts for tax rate certification purposes.

A retained earnings deficit for the period ending June 30 (see Appendix B) must be funded and reported in the next fiscal year's Tax Rate Recap. A community has the following options for funding and reporting a retained earnings deficit:

- a. report an appropriation made by the legislative body from the general or other applicable fund specifically to fund the deficit;
- b. report the deficit in part 3 of Schedule A-2 and Part IIB, line 4, of the Tax Rate Recap, as an Other Amount to be Raised, and report on Schedule A-2 and the Tax Rate Recap enterprise estimated revenues above the amount appropriated for direct and indirect expenses, provided the estimated revenues can be properly supported;
- c. report the deficit in part 3 of the Schedule A-2 and Part IIB, line 4, of the Tax Rate Recap, and raise it from the tax levy as a general fund subsidy.

C. Expenses of An Enterprise Fund

Enterprise funds may only be expended for enterprise purposes. All costs of operating the enterprise must be identified. However, costs funded by other than the enterprise fund or general fund are not reported on Schedule A-2. Any surplus due to unspent appropriations as of June 30 stays in the enterprise fund. Expenses of the enterprise include:

1. Salaries and Wages - appropriated in and incurred directly by the enterprise for the enterprise employees.
2. Expenses - appropriated in and incurred directly by the enterprise for operating expenses and contractual payments.
3. Capital Outlay - capital expenses such as construction or major repairs, equipment or acquisitions. While these capital expenses may be reviewed and recommended centrally by a capital planning committee, they should be appropriated apart from general fund capital expenditures.
4. Extraordinary and Unforeseen - expenses that may be appropriated by the legislative body which may also impose any condition(s) for their use. Such conditions offer the community better control and accountability over their use. Any unspent balance closes to the enterprise fund at fiscal year-end. This is similar to a Reserve Fund.
5. Other - may include employee benefits such as health and life insurance, unemployment insurance and pension costs or may include debt service. These expenses may be budgeted in the enterprise fund or in the general fund operating budget.
6. Indirect costs - expenses incurred by other city or town departments providing services to the enterprise, which are most often appropriated as part of the general fund operating budget and allocated to the enterprise fund. For example, the collector, whose salary is paid by the general fund, may process enterprise user bill payments. However, the entire salary of the collector may not be allocated to the enterprise fund – only the proportionate share of the salary that is allocated to enterprise purposes. (See IGR Section V below - Budget Recommendation Wording. In those examples, the indirect costs are appropriated in the general fund operating budget and assigned to the enterprise fund.)

The Bureau recommends that every community with an enterprise fund establish a written, internal policy regarding indirect cost allocation and should review this policy annually. The policy should be reasonable and calculated on a fair and consistent basis. Local financial officials should understand and agree on what indirect costs are appropriated as part of the general fund operating budget and what percentage of these costs should be allocated to the enterprise fund.

The Director of Accounts may reject any community's methodology, written or otherwise, as unreasonable for tax rate setting purposes.

Once appropriated as part of the general fund operating budget, indirect costs are allocated to the enterprise fund as reported on Schedule A-2. Do not appropriate these costs in both the general fund operating budget and in the enterprise fund budget. Local

financial officials may wish to show the public all costs of the enterprise fund but should not duplicate their appropriation. Therefore, reporting of enterprise fund estimated receipts on page 3 of the Tax Rate Recap to offset any duplication should no longer be necessary.

IV. BALANCING AN ENTERPRISE BUDGET

The budget for the enterprise must be balanced with combined revenues and available funds being sufficient to cover the proposed total service cost. As depicted in Table 1 below, an enterprise fund may be balanced in one of three ways: 1) it may be budgeted as self-sufficient; 2) it may have a budgeted surplus; or 3) it may have a budgeted subsidy.

TABLE 1: THREE SCENARIOS FOR AN ENTERPRISE BUDGET

Budgeted Self-Sufficient	Budgeted Surplus	Budgeted Subsidy
Estimated Revenues = Budget	Estimated Revenues > Budget	Budget > Estimated Revenues
The enterprise fund estimated revenues are sufficient to cover the total budgeted costs of the service.	The enterprise fund estimated revenues exceed the total budgeted costs. The difference may be appropriated to an enterprise budgeted surplus or may reflect a reimbursement to the general fund to provide for a retained earnings deficit in the prior fiscal year. Otherwise, enterprise revenues must be reduced to the level of direct appropriations and indirect appropriations allocated to the enterprise prior to setting the tax rate. At fiscal year-end, any unspent balance in budgeted surplus stays with the enterprise.	The enterprise fund estimated revenues are below the budgeted costs. This budgeted subsidy must be provided by the general fund (<i>i.e.</i> , tax levy, free cash, etc.) or other funding source voted by the legislative body.

TABLE 2: BUDGET PRESENTATION EXAMPLES

Table 2 depicts three examples of presenting an enterprise budget and how each is balanced. In the second column, the budgeted surplus must be first appropriated by the legislative body into the enterprise fund budget and can be further appropriated by the legislative body. In the third column, the budgeted subsidy must be appropriated by the legislative body.

Budgeted Self-Sufficient	Budgeted Surplus	Budgeted Subsidy
Estimated Revenues User fees \$500,000 Other Departmental Revenue 25,000 Investment income <u>14,000</u> Subtotal: \$539,000 Retained Earnings <u>50,000</u> <u>Total: \$589,000</u>	Estimated Revenues User fees \$575,000 Other Departmental Revenue 25,000 Investment income <u>14,000</u> Subtotal: \$614,000 Retained Earnings <u>50,000</u> <u>Total: \$664,000</u>	Estimated Revenues User fees \$340,000 Other Departmental Revenue 25,000 Investment income <u>14,000</u> Subtotal: \$379,000 Retained Earnings <u>50,000</u> <u>Total: \$429,000</u>
Budget <div style="text-align: center;"><u>Direct</u></div> Salaries \$254,000 Expenses 8,000 Capital outlay 125,000 Debt 45,000 Extra/Unforeseen <u>10,000</u> Subtotal: \$442,000 <div style="text-align: center;"><u>Indirect</u></div> Health insurance \$61,000 FICA 3,000 Pensions 29,000 Accounting dept. 15,000 Collecting dept. 32,000 Treasury dept. <u>7,000</u> Subtotal: \$147,000 <u>Total: \$589,000</u>	Budget <div style="text-align: center;"><u>Direct</u></div> Salaries \$254,000 Expenses 8,000 Capital outlay 125,000 Debt 45,000 Extra/Unforeseen <u>10,000</u> Subtotal: \$442,000 <div style="text-align: center;"><u>Indirect</u></div> Health insurance \$61,000 FICA 3,000 Pensions 29,000 Accounting dept. 15,000 Collecting dept. 32,000 Treasury dept. <u>7,000</u> Subtotal: \$147,000 <u>Total: \$589,000</u>	Budget <div style="text-align: center;"><u>Direct</u></div> Salaries \$254,000 Expenses 8,000 Capital outlay 125,000 Debt 45,000 Extra/Unforeseen <u>10,000</u> Subtotal: \$442,000 <div style="text-align: center;"><u>Indirect</u></div> Health insurance \$61,000 FICA 3,000 Pensions 29,000 Accounting dept. 15,000 Collecting dept. 32,000 Treasury dept. <u>7,000</u> Subtotal: \$147,000 <u>Total: \$589,000</u>
Surplus/(deficit) \$0	Surplus/(deficit) \$75,000 Budgeted Surplus \$75,000	Surplus/(deficit) (\$160,000) Budgeted Subsidy \$160,000

V. ADOPTING AN ENTERPRISE BUDGET

TABLE 3: ENTERPRISE BUDGET RECOMMENDATION

In Table 3, indirect costs will be appropriated as part of the city or town’s annual general fund operating budget. In the second column, a budgeted surplus has been appropriated to the enterprise fund. In the third column, a budgeted subsidy is being provided for by the general fund. Note in this example that although reflected as direct enterprise costs, debt and capital outlay expenses may be either direct or indirect.

Budgeted Self-Sufficient	Budgeted Surplus	Budgeted Subsidy
Recommend that the following sums be appropriated to operate the _____ enterprise:	Recommend that the following sums be appropriated to operate the _____ enterprise:	Recommend that the following sums be appropriated to operate the _____ enterprise:
<u>Direct</u>	<u>Direct</u>	<u>Direct</u>
Salaries \$254,000	Salaries \$254,000	Salaries \$254,000
Expenses 8,000	Expenses 8,000	Expenses 8,000
Capital outlay 125,000	Capital outlay 125,000	Capital outlay 125,000
Debt 45,000	Debt 45,000	Debt 45,000
Extra/Unforeseen 10,000	Extra/Unforeseen 10,000	Extra/Unforeseen 10,000
Budgeted surplus 0	Budgeted surplus 75,000	Budgeted surplus 0
Subtotal: \$442,000	Subtotal: \$517,000	Subtotal: \$442,000
<u>Indirect</u>	<u>Indirect</u>	<u>Indirect</u>
Health insurance \$61,000	Health insurance \$61,000	Health insurance \$61,000
FICA 3,000	FICA 3,000	FICA 3,000
Pensions 29,000	Pensions 29,000	Pensions 29,000
Accounting dept 15,000	Accounting dept 15,000	Accounting dept 15,000
Collecting dept. 32,000	Collecting dept. 32,000	Collecting dept. 32,000
Treasury dept. 7,000	Treasury dept. 7,000	Treasury dept. 7,000
Subtotal: \$147,000	Subtotal: \$147,000	Subtotal: \$147,000
<u>Total: \$589,000</u>	<u>Total: \$664,000</u>	<u>Total: \$589,000</u>
\$392,000 from enterprise revenues; \$50,000 from retained earnings;	\$467,000 from enterprise revenues; \$50,000 from retained earnings;	\$379,000 from enterprise revenues; \$50,000 from retained earnings; \$10,000 from the tax levy; \$3,000 from free cash
In each case above, \$147,000 indirect costs are to be appropriated as part of the general fund annual operating budget and allocated to the enterprise fund for funding. <i>(Do not duplicate this appropriation in the enterprise fund budget.)</i>		

When the municipal legislative body approves the enterprise budget, the vote should include the direct department appropriations only. (See Table 4 below.) Note that \$147,000 of costs has already been included for appropriation in the general fund’s operating budget.

TABLE 4: ENTERPRISE BUDGET ORDER/ARTICLE WORDING

Budgeted Self-Sufficient	Budgeted Surplus	Budgeted Subsidy																																																						
<p>Order/Article: To see if the community will vote to raise and appropriate or transfer from available funds a sum of money to operate the ___ enterprise or take any other action thereon.</p> <p>Voted: That the following sums be appropriated for the ___ enterprise.</p> <table> <tr> <td>Salaries</td> <td>\$254,000</td> </tr> <tr> <td>Expenses</td> <td>8,000</td> </tr> <tr> <td>Capital outlay</td> <td>125,000</td> </tr> <tr> <td>Debt</td> <td>45,000</td> </tr> <tr> <td>Extra/Unforeseen</td> <td><u>10,000</u></td> </tr> <tr> <td>Total:</td> <td><u>\$442,000</u></td> </tr> </table> <p>and that \$442,000 be raised as follows:</p> <table> <tr> <td>Enterprise receipts</td> <td>\$392,000</td> </tr> <tr> <td>Retained Earnings</td> <td>50,000</td> </tr> </table>	Salaries	\$254,000	Expenses	8,000	Capital outlay	125,000	Debt	45,000	Extra/Unforeseen	<u>10,000</u>	Total:	<u>\$442,000</u>	Enterprise receipts	\$392,000	Retained Earnings	50,000	<p>Order/Article: To see if the community will vote to raise and appropriate or transfer from available funds a sum of money to operate the ___ enterprise or take any other action thereon.</p> <p>Voted: That the following sums be appropriated for the ___ enterprise.</p> <table> <tr> <td>Salaries</td> <td>\$254,000</td> </tr> <tr> <td>Expenses</td> <td>8,000</td> </tr> <tr> <td>Capital outlay</td> <td>125,000</td> </tr> <tr> <td>Debt</td> <td>45,000</td> </tr> <tr> <td>Extra/Unforeseen</td> <td>10,000</td> </tr> <tr> <td>Budgeted surplus</td> <td><u>75,000</u></td> </tr> <tr> <td>Total:</td> <td><u>\$517,000</u></td> </tr> </table> <p>and that \$517,000 be raised as follows:</p> <table> <tr> <td>Enterprise receipts</td> <td>\$467,000</td> </tr> <tr> <td>Retained Earnings</td> <td>50,000</td> </tr> </table>	Salaries	\$254,000	Expenses	8,000	Capital outlay	125,000	Debt	45,000	Extra/Unforeseen	10,000	Budgeted surplus	<u>75,000</u>	Total:	<u>\$517,000</u>	Enterprise receipts	\$467,000	Retained Earnings	50,000	<p>Order/Article: To see if the community will vote to raise and appropriate or transfer from available funds a sum of money to operate the ___ enterprise or take any other action thereon.</p> <p>Voted: That the following sums be appropriated for the ___ enterprise.</p> <table> <tr> <td>Salaries</td> <td>\$254,000</td> </tr> <tr> <td>Expenses</td> <td>8,000</td> </tr> <tr> <td>Capital outlay</td> <td>125,000</td> </tr> <tr> <td>Debt</td> <td>45,000</td> </tr> <tr> <td>Extra/Unforeseen</td> <td><u>10,000</u></td> </tr> <tr> <td>Total:</td> <td><u>\$442,000</u></td> </tr> </table> <p>and that \$442,000 be raised as follows:</p> <table> <tr> <td>Enterprise receipts</td> <td>\$379,000</td> </tr> <tr> <td>Retained Earnings</td> <td>50,000</td> </tr> <tr> <td>Tax levy</td> <td>10,000</td> </tr> <tr> <td>Free cash</td> <td>3,000</td> </tr> </table>	Salaries	\$254,000	Expenses	8,000	Capital outlay	125,000	Debt	45,000	Extra/Unforeseen	<u>10,000</u>	Total:	<u>\$442,000</u>	Enterprise receipts	\$379,000	Retained Earnings	50,000	Tax levy	10,000	Free cash	3,000
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VI. REPORTING - GATEWAY SCHEDULE A-2 AND THE TAX RATE RECAP FORMS

Enterprise fund actual and estimated revenues, direct and indirect appropriations, retained earnings deficit from the prior fiscal year and funding sources for direct enterprise appropriations are reported on Schedule A-2 (see Table 5 below) as part of the Tax Rate Recap form. Certain amounts are then transferred to the Tax Rate Recap form. Amounts on these forms should be compared for accuracy. Actual and estimated revenues reported on Schedule A-2 should be on a cash basis only.

Any legislative body appropriation to reimburse the general fund should be reported on the Tax Rate Recap, page 2, Part IIID, line 4 only.

For demonstration purposes for a FY21 budget, Table 5 below represents completion of the current Gateway Schedule A-2 form using amounts from the three previous examples.

TABLE 5: SCHEDULE A-2, ENTERPRISE FUNDS

1. Enterprise Revenues & Available Funds	Budgeted Self-Sufficient	Budgeted Surplus	Budgeted Subsidy
a. User charges	\$500,000	\$575,000	\$340,000
Other departmental revenue	25,000	25,000	25,000
Investment income	14,000	14,000	14,000
Total revenues	\$539,000	\$614,000	\$379,000
Retained Earnings appropriated from July 1, 2019 Certification*	50,000	50,000	50,000
Retained Earnings appropriated from July 1, 2020 Certification*	0	0	0
Other enterprise available funds	0	0	0
Total revenues & available funds	\$589,000	\$664,000	\$429,000
2. Total costs appropriated			
2a. Costs appropriated in the enterprise fund			
Salaries, wages and expenses	\$262,000	\$262,000	\$262,000
Capital outlay	125,000	125,000	125,000
Other	55,000	130,000	55,000
Total costs appropriated in the enterprise fund	\$442,000	\$517,000	\$442,000
b. Indirect costs appropriated in the general fund			
Health Insurance	\$61,000	\$61,000	\$61,000
Pension	29,000	29,000	29,000
Debt	0	0	0
Other	57,000	57,000	57,000
Total costs appropriated in the general fund	\$147,000	\$147,000	\$147,000
Total costs	\$589,000	\$664,000	\$589,000
3. Calculation of subsidy (see instructions)			
Revenue and available funds (enterprise)	\$589,000	\$664,000	\$429,000
Less: Total costs	589,000	664,000	589,000
Less: Prior year deficit	0	0	0
Surplus/subsidy (Negative represents subsidy)	0	0	-\$160,000
4. Sources of funding for costs appropriated in the enterprise fund			
a. Revenue and available funds (enterprise)	\$442,000	\$517,000	\$429,000
b. Taxation			10,000
c. Free Cash			3,000
d. Non-enterprise available funds			
Total sources of funding for costs appropriated in the enterprise fund	\$442,000	\$517,000	\$442,000

*Retained earnings must be certified by the Bureau of Accounts prior to appropriation.

Example 1 – Budgeted Self-Sufficient

**BUREAU OF ACCOUNTS
SCHEDULE A-2
ENTERPRISE FUNDS CH.44 S.53F 1/2**

City/Town/District

Type and name of enterprise fund

	(a) FY2020 Actual Revenues	(b) FY2021 Estimated Revenues
1. Enterprise revenues & available funds		
a. User charges	\$	\$ 500,000.00 *
Other departmental revenue		25,000.00 *
Investment income		14,000.00 *
Total revenues	0.00	539,000.00
Retained earnings appropriated from July 1, 2019 certification		50,000.00
Retained earnings appropriated from July 1, 2020 certification		
Other enterprise available funds _____		
Total revenues and available funds	\$ 0.00	\$ 589,000.00 To Recap Pg 2, Part III B, line 3)
* Written documentation should be suploaded to support increases of estimated vs actual revenues		
** Retained earnings must be certified by the Director of Accounts prior to appropriation.		
2. Total costs appropriated		
a. Costs appropriated in the enterprise fund		
Salaries, wages and expenses	\$ 262,000.00	
Capital outlay	125,000.00	
Other Debt, Unforeseen	55,000.00	
Total costs appropriated in enterprise fund		\$ 442,000.00
b. Indirect costs appropriated in general fund		
Health insurance	\$ 61,000.00	
Pension	29,000.00	
Debt		
Other:--> FICA and shared employees	57,000.00	
Total costs appropriated in the general fund		\$ 147,000.00
Total Costs		\$ 589,000.00
3. Calculation of subsidy (see instructions)		
Revenue & available funds	\$ 589,000.00	(part 1, col. b)
Less: Total costs	589,000.00	(part 2 total costs)
Less: Prior year deficit		(To Recap pg. 2 Part IIB)
(Negative represents subsidy)	\$ 0.00	
4. Sources of funding for costs appropriated in the enterprise fund		
a. Revenue and available funds	\$ 442,000.00	
b. Taxation		
c. Free cash		
d. Non-Enterprise Available Funds		
Total sources of funding for costs appropriated in the enterprise fund	\$ 442,000.00	(Must equal total part 2a)

Signatures

Accounting Officer

I hereby certify that the actual revenues - Part 1 column (a) and the amounts appropriated - part 2 (a & b) are to the best of my knowledge correct and complete.

Example 2 – Budgeted Surplus

**BUREAU OF ACCOUNTS
SCHEDULE A-2
ENTERPRISE FUNDS CH.44 S.53F 1/2**

City/Town/District

Type and name of enterprise fund

	(a) FY2020 Actual Revenues	(b) FY2021 Estimated Revenues
1. Enterprise revenues & available funds		
a. User charges	\$	\$ 575,000.00 *
Other departmental revenue		25,000.00 *
Investment income		14,000.00 *
Total revenues	0.00	614,000.00
Retained earnings appropriated from July 1, 2019 certification		50,000.00
Retained earnings appropriated from July 1, 2020 certification		
Other enterprise available funds _____		
Total revenues and available funds	\$ 0.00	\$ 664,000.00 <small>To Recap Pg 2, Part IIB, line 3)</small>
* Written documentation should be suploaded to support increases of estimated vs actual revenues		
** Retained earnings must be certified by the Director of Accounts prior to appropriation.		
2. Total costs appropriated		
a. Costs appropriated in the enterprise fund		
Salaries, wages and expenses	\$ 262,000.00	
Capital outlay	125,000.00	
Other <small>Debt, Unforeseen, Bud Surplus</small>	130,000.00	
Total costs appropriated in enterprise fund		\$ 517,000.00
b. Indirect costs appropriated in general fund		
Health insurance	\$ 61,000.00	
Pension	29,000.00	
Debt		
Other:--> <small>FICA and shared employees</small>	57,000.00	
Total costs appropriated in the general fund		\$ 147,000.00
Total Costs		\$ 664,000.00
3. Calculation of subsidy (see instructions)		
Revenue & available funds	\$ 664,000.00	<small>(part 1, col. b)</small>
Less: Total costs	664,000.00	<small>(part 2 total costs)</small>
Less: Prior year deficit		<small>(To Recap pg. 2 Part IIB)</small>
(Negative represents subsidy)	\$ 0.00	
4. Sources of funding for costs appropriated in the enterprise fund		
a. Revenue and available funds	\$ 517,000.00	
b. Taxation		
c. Free cash		
d. Non-Enterprise Available Funds		
Total sources of funding for costs appropriated in the enterprise fund	\$ 517,000.00	<small>(Must equal total part 2a)</small>

Signatures

Accounting Officer

I hereby certify that the actual revenues - Part 1 column (a) and the amounts appropriated - part 2 (a & b) are to the best of my knowledge correct and complete.

Example 3 – Budgeted Subsidy

**BUREAU OF ACCOUNTS
SCHEDULE A-2
ENTERPRISE FUNDS CH.44 S.53F 1/2**

City/Town/District

Type and name of enterprise fund

	(a) FY2020 Actual Revenues	(b) FY2021 Estimated Revenues
1. Enterprise revenues & available funds		
a. User charges	\$	\$ 340,000.00 *
Other departmental revenue		25,000.00 *
Investment income		14,000.00 *
Total revenues	0.00	379,000.00
Retained earnings appropriated from July 1, 2019 certification		50,000.00
Retained earnings appropriated from July 1, 2020 certification		
Other enterprise available funds _____		
Total revenues and available funds	\$ 0.00	\$ 429,000.00 <small>To Recap Pg 2, Part IIB, line 3)</small>

* Written documentation should be suploaded to support increases of estimated vs actual revenues
 ** Retained earnings must be certified by the Director of Accounts prior to appropriation.

2. Total costs appropriated

a. Costs appropriated in the enterprise fund		
Salaries, wages and expenses	\$ 262,000.00	
Capital outlay	125,000.00	
Other Debt, Unforeseen	55,000.00	
Total costs appropriated in enterprise fund		\$ 442,000.00
b. Indirect costs appropriated in general fund		
Health insurance	\$ 61,000.00	
Pension	29,000.00	
Debt		
Other:--> FICA and shared employees	57,000.00	
Total costs appropriated in the general fund		\$ 147,000.00
Total Costs		\$ 589,000.00

3. Calculation of subsidy (see instructions)

Revenue & available funds	\$ 429,000.00	<small>(part 1, col. b)</small>
Less: Total costs	589,000.00	<small>(part 2 total costs)</small>
Less: Prior year deficit		<small>(To Recap pg. 2 Part IIB)</small>
(Negative represents subsidy)	\$ -160,000.00	

4. Sources of funding for costs appropriated in the enterprise fund

a. Revenue and available funds	\$ 429,000.00
b. Taxation	10,000.00
c. Free cash	3,000.00
d. Non-Enterprise Available Funds	
Total sources of funding for costs appropriated in the enterprise fund	\$ 442,000.00 <small>(Must equal total part 2a)</small>

Signatures

Accounting Officer

I hereby certify that the actual revenues - Part 1 column (a) and the amounts appropriated - part 2 (a & b) are to the best of my knowledge correct and complete.

From the Schedule A-2, information is transferred and reported on the Tax Rate Recap form on pages 4 (Table 6) and 2 (Table 7) as demonstrated below. For each example, the indirect costs of \$147,000 are appropriated in the general fund operating budget and included as “from raise and appropriate”.

TABLE 6: TAX RATE RECAPITULATION FORM, PAGE 4 - CERTIFICATION OF APPROPRIATIONS AND SOURCES OF FUNDING

Example	Total appropriation of each meeting	From raise & appropriate	From free cash	From other available funds	Enterprise funds
Budgeted Self-Sufficient					
General Fund budget (indirect costs)	\$147,000	\$147,000	0	0	0
Enterprise budget	\$442,000	0	0	0	\$442,000
Budgeted Surplus					
General Fund budget (indirect costs)	\$147,000	\$147,000	0	0	0
Enterprise budget	\$517,000	0	0	0	\$517,000
Budgeted Subsidy					
General Fund budget (indirect costs)	\$147,000	\$147,000	0	0	0
Enterprise budget	\$442,000	\$10,000	\$3,000	0	\$429,000

As a reminder, although not depicted in this example, a retained earnings deficit must be reported and funded in the next fiscal year’s Tax Rate Recap. Therefore, although the enterprise was originally budgeted as self-sufficient or in surplus, it may require a subsidy if the deficit is not otherwise funded.

Example 1 – Budgeted Self-Sufficient

CERTIFICATION OF APPROPRIATIONS AND SOURCES OF FUNDING

Make sure Fiscal Year is entered for every row of data.

		APPROPRIATIONS					
City/Town Council or Town Meeting Dates	FY*	(a) Total Appropriations Of Each Meeting	(b) ** From Raise and Appropriate	(c) From Free Cash See B-1	(d) From Other Available Funds See B-2	(e) From Offset Receipts	(f) From Enterprise Funds
		589,000.00	147,000.00				442,000.00
		0.00					
		0.00					
		0.00					
		0.00					
		0.00					
		0.00					
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		0.00					
		0.00					
		0.00					
		0.00					
		0.00					
		0.00					
Totals		589,000.00	147,000.00	0.00	0.00	0.00	442,000.00
		Must Equal Cols. (b) thru (e)					

* Enter the fiscal year to which the appropriation relates, i.e., fiscal year 20xx or fiscal 20xx.

** Appropriations included in column (b) must not be reduced by local receipts or any other funding source. Appropriations must be entered gross to avoid a duplication in the use of estimated or other sources of receipts.

Signatures

Clerk

I hereby certify that the appropriations correctly reflect the votes taken by City / Town / District Council.

Example 2 – Budgeted Surplus

CERTIFICATION OF APPROPRIATIONS AND SOURCES OF FUNDING

		APPROPRIATIONS						
City/Town Council or Town Meeting Dates	FY*	(a) Total Appropriations Of Each Meeting	(b) ** From Raise and Appropriate	(c) From Free Cash See B-1	(d) From Other Available Funds See B-2	(e) From Offset Receipts	(f) From Enterprise Funds	
		664,000.00	147,000.00				517,000.00	
		0.00						
		0.00						
		0.00						
		0.00						
		0.00						
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		0.00						
		0.00						
		0.00						
		0.00						
		0.00						
		0.00						
		0.00						
Totals		664,000.00	147,000.00	0.00	0.00	0.00	517,000.00	
		Must Equal Cols. (b) thru (e)						

Make sure Fiscal Year is entered for every row of data.

* Enter the fiscal year to which the appropriation relates, i.e., fiscal year 20xx or fiscal 20xx.

** Appropriations included in column (b) must not be reduced by local receipts or any other funding source. Appropriations must be entered gross to avoid a duplication in the use of estimated or other sources of receipts.

Signatures

Clerk

I hereby certify that the appropriations correctly reflect the votes taken by City / Town / District Council.

Example 3 – Budgeted Subsidy

CERTIFICATION OF APPROPRIATIONS AND SOURCES OF FUNDING

Make sure Fiscal Year is entered for every row of data.

City/Town Council or Town Meeting Dates	FY*	(a) Total Appropriations Of Each Meeting	(b) ** From Raise and Appropriate	(c) From Free Cash See B-1	(d) From Other Available Funds See B-2	(e) From Offset Receipts	(f) From Enterprise Funds
		589,000.00	157,000.00	3,000.00			429,000.00
		0.00					
		0.00					
		0.00					
		0.00					
		0.00					
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		0.00					
		0.00					
		0.00					
		0.00					
		0.00					
Totals		589,000.00	157,000.00	3,000.00	0.00	0.00	429,000.00

Must Equal
Cols. (b) thru (e)

* Enter the fiscal year to which the appropriation relates, i.e., fiscal year 20xx or fiscal 20xx.

** Appropriations included in column (b) must not be reduced by local receipts or any other funding source. Appropriations must be entered gross to avoid a duplication in the use of estimated or other sources of receipts.

Signatures

Clerk

I hereby certify that the appropriations correctly reflect the votes taken by City / Town / District Council.

TABLE 7: TAX RATE RECAPITULATION FORM, PAGE 2

II. Amount to be raised	Budgeted Self-Sufficient	Budgeted Surplus	Budgeted Subsidy
A. Appropriations	\$589,000	\$664,000	\$589,000
E. Total amount to be raised	\$589,000	\$664,000	\$589,000

III. Estimated receipts & other revenue sources	Budgeted Self-Sufficient	Budgeted Surplus	Budgeted Subsidy
B. Estimated receipts – Local			
3. Enterprise funds	\$589,000	\$664,000	\$429,000
C. Revenue sources appropriated for particular purpose			
1. Free cash	0	0	\$3,000
E. Total estimated receipts and other revenue sources	\$589,000	\$664,000	\$432,000

IV. Summary of total amount to be raised and total receipts from all sources	Budgeted Self-Sufficient	Budgeted Surplus	Budgeted Subsidy
A. Total amount to be raised	\$589,000	\$664,000	\$589,000
B. Total estimated receipts and other revenue sources	\$589,000	\$664,000	\$432,000
C. Total real and personal property tax levy	0	0	\$157,000
D. Total receipts from all sources	\$589,000	\$664,000	\$589,000

If funds are appropriated from retained earnings or from another enterprise available fund after the tax rate is set, these are reported on the following fiscal year's Tax Rate Recap and Schedule A-2 forms.

Example 1 – Budgeted Self-Sufficient

II. Amounts to be raised

Ila. Appropriations (col. (b) through col. (e) from Page 4)		\$	<u>589,000.00</u>
Ilb. Other amounts to be raised			
1. Amounts certified for tax title purposes	_____		
2. Debt and interest charges not included on page 4	_____		
3. Final court judgments	_____		
4. Total overlay deficits of prior years	_____		
5. Total cherry sheet offsets (see cherry sheet 1-ER)	_____		
6. Revenue deficits	_____		
7. Offset receipts deficits Ch. 44, Sec. 53E	_____		
8. Authorized deferral of teachers' pay	_____		
9. Snow and ice deficit Ch. 44 Sec. 31D	_____		
10. Other (specify on separate letter)	_____		
TOTAL Ilb (Total lines 1 through 10)			<u>0.00</u>
Ilc. State and county cherry sheet charge (C.S. 1-EC)			_____
Ild. Allowance for abatements and exemptions (overlay)			_____
Ile. Total amount to be raised (Total Ila through Ild)		\$	<u><u>589,000.00</u></u>

III. Estimated receipts and other revenue sources

IIIa. Estimated receipts - State			
1. Cherry sheet estimated receipts (C.S. 1-ER Total)	\$	_____	
2. Massachusetts School Building Authority Payments		_____	
TOTAL IIIa			<u>0.00</u>
IIIb. Estimated receipts - Local			
1. Local receipts not allocated (Page 3, col. (b), Line 23)		0.00	
2. Offset receipts (See Schedule A-1)		0.00	
3. Enterprise funds (See Schedule A-2)		589,000.00	
4. Community preservation funds (See Schedule A-4)		0.00	
TOTAL IIIb			<u>589,000.00</u>
IIIc. Revenue sources appropriated for particular purposes			
1. Free cash (Page 4, col. (c))		0.00	
2. Other available funds (Page 4, col. (d))		0.00	
TOTAL IIIc			<u>0.00</u>
IIId. Other revenue sources appropriated specifically to reduce the tax rate			
1. a. Free cash...appropriated on or before June 30, 20xx		_____	
b. Free cash...appropriated on or after July 1, 20xx		_____	
2. Municipal light source		_____	
3. Teachers' pay deferral		_____	
4. Other source : _____		_____	
TOTAL IIId			<u>0.00</u>
IIIe. Total estimated receipts and other revenue sources (Total IIIa through IIId)		\$	<u><u>589,000.00</u></u>

IV. Summary of total amount to be raised and total receipts from all sources

a. Total amount to be raised (from Ile)		\$	<u>589,000.00</u>
b. Total estimated receipts and other revenue sources (from IIIe)	\$	<u>589,000.00</u>	
c. Total real and personal property tax levy (from Ic)	\$	0.00	
d. Total receipts from all sources (total IVb plus IVc)	\$	<u>589,000.00</u>	

Example 2 – Budgeted Surplus

II. Amounts to be raised

Ila. Appropriations (col. (b) through col. (e) from Page 4)		\$ <u>664,000.00</u>
Ilb. Other amounts to be raised		
1. Amounts certified for tax title purposes	_____	
2. Debt and interest charges not included on page 4	_____	
3. Final court judgments	_____	
4. Total overlay deficits of prior years	_____	
5. Total cherry sheet offsets (see cherry sheet 1-ER)	_____	
6. Revenue deficits	_____	
7. Offset receipts deficits Ch. 44, Sec. 53E	_____	
8. Authorized deferral of teachers' pay	_____	
9. Snow and ice deficit Ch. 44 Sec. 31D	_____	
10. Other (specify on separate letter)	_____	
TOTAL Ilb (Total lines 1 through 10)		<u>0.00</u>
Ilc. State and county cherry sheet charge (C.S. 1-EC)	_____	
Ild. Allowance for abatements and exemptions (overlay)	_____	
Ile. Total amount to be raised (Total Ila through Ild)		\$ <u><u>664,000.00</u></u>

III. Estimated receipts and other revenue sources

IIIa. Estimated receipts - State		
1. Cherry sheet estimated receipts (C.S. 1-ER Total)	\$ _____	
2. Massachusetts School Building Authority Payments	_____	
TOTAL IIIa		<u>0.00</u>
IIIb. Estimated receipts - Local		
1. Local receipts not allocated (Page 3, col. (b), Line 23)	_____	0.00
2. Offset receipts (See Schedule A-1)	_____	0.00
3. Enterprise funds (See Schedule A-2)	_____	664,000.00
4. Community preservation funds (See Schedule A-4)	_____	0.00
TOTAL IIIb		<u>664,000.00</u>
IIIc. Revenue sources appropriated for particular purposes		
1. Free cash (Page 4, col. (c))	_____	0.00
2. Other available funds (Page 4, col. (d))	_____	0.00
TOTAL IIIc		<u>0.00</u>
IIId. Other revenue sources appropriated specifically to reduce the tax rate		
1. a. Free cash...appropriated on or before June 30, 20xx	_____	
b. Free cash...appropriated on or after July 1, 20xx	_____	
2. Municipal light source	_____	
3. Teachers' pay deferral	_____	
4. Other source : _____	_____	
TOTAL IIId		<u>0.00</u>
IIIe. Total estimated receipts and other revenue sources (Total IIIa through IIId)		\$ <u><u>664,000.00</u></u>

IV. Summary of total amount to be raised and total receipts from all sources

a. Total amount to be raised (from Ile)		\$ <u>664,000.00</u>
b. Total estimated receipts and other revenue sources (from IIIe)	\$ <u>664,000.00</u>	
c. Total real and personal property tax levy (from Ic)	\$ <u>0.00</u>	
d. Total receipts from all sources (total IVb plus IVc)		\$ <u><u>664,000.00</u></u>

Example 3 – Budgeted Subsidy

II. Amounts to be raised

IIa. Appropriations (col. (b) through col. (e) from Page 4)		\$	<u>589,000.00</u>
IIb. Other amounts to be raised			
1. Amounts certified for tax title purposes	_____		
2. Debt and interest charges not included on page 4	_____		
3. Final court judgments	_____		
4. Total overlay deficits of prior years	_____		
5. Total cherry sheet offsets (see cherry sheet 1-ER)	_____		
6. Revenue deficits	_____		
7. Offset receipts deficits Ch. 44, Sec. 53E	_____		
8. Authorized deferral of teachers' pay	_____		
9. Snow and ice deficit Ch. 44 Sec. 31D	_____		
10. Other (specify on separate letter)	_____		
TOTAL IIb (Total lines 1 through 10)			<u>0.00</u>
IIc. State and county cherry sheet charge (C.S. 1-EC)			_____
IId. Allowance for abatements and exemptions (overlay)			_____
IIe. Total amount to be raised (Total IIIa through IId)		\$	<u>589,000.00</u>

III. Estimated receipts and other revenue sources

IIIa. Estimated receipts - State			
1. Cherry sheet estimated receipts (C.S. 1-ER Total)	\$	_____	
2. Massachusetts School Building Authority Payments		_____	
TOTAL IIIa			<u>0.00</u>
IIIb. Estimated receipts - Local			
1. Local receipts not allocated (Page 3, col. (b), Line 23)		<u>0.00</u>	
2. Offset receipts (See Schedule A-1)		<u>0.00</u>	
3. Enterprise funds (See Schedule A-2)		<u>429,000.00</u>	
4. Community preservation funds (See Schedule A-4)		<u>0.00</u>	
TOTAL IIIb			<u>429,000.00</u>
IIIc. Revenue sources appropriated for particular purposes			
1. Free cash (Page 4, col. (c))		<u>3,000.00</u>	
2. Other available funds (Page 4, col. (d))		<u>0.00</u>	
TOTAL IIIc			<u>3,000.00</u>
IIId. Other revenue sources appropriated specifically to reduce the tax rate			
1. a. Free cash...appropriated on or before June 30, 20xx		_____	
b. Free cash...appropriated on or after July 1, 20xx		_____	
2. Municipal light source		_____	
3. Teachers' pay deferral		_____	
4. Other source : _____		_____	
TOTAL IIId			<u>0.00</u>
IIIe. Total estimated receipts and other revenue sources (Total IIIa through IIId)		\$	<u>432,000.00</u>

IV. Summary of total amount to be raised and total receipts from all sources

a. Total amount to be raised (from IIe)		\$	<u>589,000.00</u>
b. Total estimated receipts and other revenue sources (from IIIe)	\$	<u>432,000.00</u>	
c. Total real and personal property tax levy (from Ic)	\$	<u>157,000.00</u>	
d. Total receipts from all sources (total IVb plus IVc)	\$	<u>589,000.00</u>	

VII. UMAS ACCOUNTING ENTRIES

UMAS BUDGETARY ENTRIES – ENTERPRISE FUND

These are sample entries corresponding to the three scenarios. Note: In this example, the enterprise subsidy is from the General Fund. Subsidies from other funds use the same entries.

BUDGETED SELF-SUFFICIENT

1. The estimated revenues and use of enterprise available funds are recorded.

650-3815	ESTIMATED REVENUE	539,000	
650-3880	BUDGETARY RETAINED EARNINGS	50,000	
650-3890	BUDGETARY CONTROL		589,000

To record the estimated revenue and use of the enterprise available fund

2. The appropriations for the enterprise fund are recorded.

650-3890	BUDGETARY CONTROL	442,000	
650-3830	APPROPRIATIONS		442,000

To record the appropriations in the enterprise fund.

3. Budgeted indirect costs appropriated in the General Fund are recorded.

650-3890	BUDGETARY CONTROL	147,000	
650-3870	ESTIMATED OTHER FINANCING USES		147,000

To record the budgeting of indirect costs appropriated in the General Fund

BUDGETED SURPLUS

1. The estimated revenues and use of enterprise available funds are recorded.

650-3815	ESTIMATED REVENUE	614,000	
650-3880	BUDGETARY RETAINED EARNINGS	50,000	
650-3890	BUDGETARY CONTROL		664,000

To record the estimated revenue and use of the enterprise available fund

2. The appropriations for the enterprise fund are recorded.

650-3890	BUDGETARY CONTROL	442,000	
650-3830	APPROPRIATIONS		442,000

To record the appropriations in the enterprise fund.

3. Budgeted indirect costs appropriated in the General Fund are recorded.

650-3890	BUDGETARY CONTROL	147,000	
650-3870	ESTIMATED OTHER FINANCING USES		147,000

To record the budgeting of indirect costs appropriated in the General Fund

4. The budgeted surplus is appropriated.

650-3890	BUDGETARY CONTROL	75,000	
650-3830	APPROPRIATIONS		75,000

To record the budgetary surplus.

BUDGETED SUBSIDY

1. The estimated revenues and use of enterprise available funds are recorded.

650-3815	ESTIMATED REVENUE	379,000	
650-3880	BUDGETARY RETAINED EARNINGS	50,000	
650-3890	BUDGETARY CONTROL		429,000

To record the estimated revenue and use of enterprise available funds

2. The appropriations for the enterprise fund are recorded.

650-3890	BUDGETARY CONTROL	442,000	
650-3830	APPROPRIATIONS		442,000

To record the appropriations in the enterprise fund.

3. Budgeted indirect costs appropriated in the General Fund are recorded.

650-3890	BUDGETARY CONTROL	147,000	
650-3870	ESTIMATED OTHER FINANCING USES		147,000

To record the budgeting of indirect costs appropriated in the General Fund

4. The budgeted operating transfer for the General Fund subsidy is recorded.

650-3820	ESTIMATED OTHER FINANCING SOURCES	160,000	
650-3890	BUDGETARY CONTROL		160,000

To record the General Fund subsidy of the enterprise fund.

UMAS ACTUAL ENTRIES – ENTERPRISE FUNDS

The following are examples of actual entries to be recorded during the year for enterprise fund activity. The actual entries for all three examples are the same with the exception of the General Fund Subsidy entry.

1. The Enterprise Fund bills are sent out and a commitment warrant, agreeing to the total, is forwarded to the accountant/auditor.

650-1310	User Charges Receivable	349,000	
650-2651	Deferred Revenue – User Charges		349,000

To record the commitment of enterprise user charges

2. The total of enterprise bills abated is forwarded to the accountant/auditor.

650-2651	Deferred Revenue – User Charges	200	
650-1310	User Charges Receivable		200

To record the abatements of enterprise fund bills

3. Payments are collected on current enterprise bills, summarized, and reported on the Treasurer's Report of Cash Received.

650-1040	Cash – Unrestricted	7,500	
650-1310	User Charges Receivable		7,500

To record cash collected on enterprise fund user charges

4. The revenue account is adjusted to reflect the cash received on the user charges receivable.

650-2651	Deferred Revenue – User Charges	7,500	
650-3910	Revenue		7,500

To record the revenue from the collections on enterprise user charges

5. The enterprise fund pays expenses directly associated with the provision of the service.

650-3930	Expenses	440,150	
650-1040	Cash – Unrestricted		440,150

To record the payment of direct expenses of the enterprise fund.

6. The enterprise records the receipt of the subsidy from the General Fund.

650-1040	Cash – Unrestricted	160,000	
650-3920	Other Financing Sources		160,000

To record the receipt of the General Fund subsidy.

UMAS CLOSING BUDGETARY ENTRIES – ENTERPRISE FUND

BUDGETED SELF-SUFFICIENT BUDGET

7A. The budget entry for the fiscal year is reversed

650-3830 APPROPRIATIONS	442,000	
650-3870 ESTIMATED OTHER FINANCING		
USES	147,000	
650-3815 ESTIMATED REVENUE		539,000
650-3880 BUDGETARY RETAINED EARNINGS		50,000

To reverse the budget entries for the fiscal year

BUDGETED SURPLUS

7B. The budget entry for the fiscal year is reversed

650-3830 APPROPRIATIONS	517,000	
650-3870 ESTIMATED OTHER FINANCING		
USES	147,000	
650-3815 ESTIMATED REVENUE		614,000
650-3880 BUDGETARY RETAINED EARNINGS		50,000

To reverse the budget entries for the fiscal year

BUDGETED SUBSIDY

7C. The budget entry for the fiscal year is reversed

650-3830 APPROPRIATIONS	442,000	
650-3870 ESTIMATED OTHER FINANCING		
USES	147,000	
650-3815 ESTIMATED REVENUE		379,000
650-3820 ESTIMATED OTHER FINANCING		
SOURCES		160,000
650-3880 BUDGETARY RETAINED EARNINGS		50,000

To reverse the budget entries for the fiscal year

UMAS BUDGETARY ENTRIES – GENERAL FUND

1. The appropriation of indirect costs in the General Fund is recorded.

001-3890 BUDGETARY CONTROL	147,000	
001-3830 APPROPRIATIONS		147,000

To record the appropriation of enterprise fund indirect costs in the General Fund.

2. The budgeted reimbursement for indirect costs from the enterprise fund is recorded.

001-3820 ESTIMATED OTHER FINANCING SOURCES	147,000	
001-3890 BUDGETARY CONTROL		147,000

To record the estimated reimbursement from the enterprise fund to the General Fund.

Budgeted Subsidy Only

3. The budgeted operating subsidy is recorded

001-3890 BUDGETARY CONTROL	160,000	
001-3870 ESTIMATED OTHER FINANCING USES		160,000

To record the budgeted subsidy for the enterprise fund.

UMAS ACTUAL ENTRIES – GENERAL FUND

1. The expenditures are recorded in the General Fund.

001-3930 Expenditures	147,000	
001-1040 Cash – Unrestricted		147,000

To record the expenditures of the General Fund associated with costs of the enterprise fund.

2. The General Fund receives the reimbursement from the enterprise fund.

001-1040 Cash – Unrestricted	147,000	
001-3920 Other Financing Sources		147,000

To record receipt of the enterprise fund subsidy.

Budgeted Subsidy Only

3. The General Fund records the transfer of its subsidy to the enterprise fund.

001-3970 Other Financing Uses	160,000	
001-1040 Cash – Unrestricted		160,000

To record the transfer of the General Fund subsidy to the enterprise fund.

UMAS CLOSING BUDGETARY ENTRIES – GENERAL FUND

4A. The budgetary entries for the fiscal year are reversed.

001-3830 APPROPRIATIONS	147,000	
001-3820 ESTIMATED OTHER FINANCING SOURCES		147,000

To reverse the budgetary entries for the fiscal year.

4B. The budgetary entries for the fiscal year are reversed (fund subsidy only)

001-3830 APPROPRIATIONS	147,000	
001-3870 ESTIMATED OTHER FINANCING USES	160,000	
001-3820 ESTIMATED OTHER FINANCING SOURCES		147,000
001-3890 BUDGETARY CONTROL		160,000

To reverse the budgetary entries for the fiscal year.

APPENDIX A

FREQUENTLY ASKED QUESTIONS

1. How is an enterprise fund established?

An enterprise fund is adopted by a city or town by vote of its town meeting, town council, or city council with the approval of the mayor. These bodies may vote an enterprise fund for the purposes indicated in the statute. The adoption vote should specify when the enterprise is to become effective. (See IGR Section II above for sample vote and additional information.)

2. Can a community establish a gas or electric enterprise fund under [G.L. c. 44, § 53F½](#)

No. A gas and/or electric department must be established under [G.L. c. 164](#).

3. Does an enterprise fund have to fully recover its costs through user fees?

No. Budget-wise, an enterprise fund may be self-sufficient, or it may budget a surplus or subsidy. The extent to which it is subsidized (generally by the general fund) is a policy decision that should be clearly presented when the council or town meeting adopts the enterprise budget. A community may, for example, choose to subsidize a sewer enterprise through a Proposition 2½ debt exclusion. User charges and fees do not then fund total sewer service costs. See Table 1 above for the three scenarios for an enterprise budget.

4. Who determines user fees and are the fees subject to any legal standards?

The board or officer designated under the general laws, special legislation, local charter or by-law determines the user fees. The fees imposed for any municipal service must comply with legal standards. Generally, the lead case on the legality of user fees is [Emerson College v. City of Boston, 391 Mass. 415 \(1984\)](#). In *Emerson*, the Supreme Judicial Court identified three factors that distinguish a legal and permissible fee, charge or rate from an illegal tax. “[T]hey [fees] are charged in exchange for a particular governmental service which benefits the party paying the fee in a manner not shared by other members of society; they are paid by choice, in that the party paying the fee has the option of not utilizing the governmental service and thereby avoiding the charge; and the charges are collected not to raise revenues but to compensate the governmental entity providing the services for its expenses.” Fees may be charged for all direct and indirect costs required to provide the service, not just those current expenses found in the budget of the responsible department. Thus, the generation of a budgetary surplus in an enterprise at the end of any one fiscal year does not necessarily mean that the fees are excessive as a legal matter. To challenge the fees, a complete cost analysis

would be required and show that the rates are set to significantly and consistently produce revenues in excess of the cost of providing the service.

5. Does a Proposition 2½ debt exclusion amount for an enterprise fund have to be reduced by user fees imposed for the same project?

No. If the community votes to exclude debt service for an enterprise fund project and increase its tax levy for that fiscal year, the community must take this additional revenue source into account in the enterprise fund. If the community chooses, it may use a portion of user charges or other revenues to fund the debt service and reduce the debt exclusion.

6. Can an enterprise fund use its retained earnings to pay for the expenses that the legislative body voted to fund by borrowing?

No. Retained earnings of the enterprise cannot be spent without appropriation. It would require the legislative body's vote to change the funding source.

7. Can an enterprise fund operate independently or under its own procedures?

No. An enterprise fund is an accounting/budgeting method. It does not grant additional powers to the department or board providing the service, nor does it create a separate legal entity. An enterprise is still a municipal department that is subject to ordinary municipal finance procedures. As stated in FAQ #4, the rate setting process is established by statute, special act, local charter or by-law. Any enterprise fund property/asset is owned by the municipality (not the department operating the enterprise) and may only be acquired, leased or disposed of by vote of the legislative body. At no time can these conditions be altered through the adoption of an enterprise fund.

8. Can a community charge an enterprise fund a payment in lieu of taxes for property used to provide the service?

From a purely accounting perspective, a payment in lieu of taxes is a proper expense of the enterprise fund. It is a quasi-external transaction, that is, an interfund exchange that would have resulted in recognition of an expense or revenue if it had involved a private party.

The validity of such a charge does not depend on the type of enterprise but depends on the type and amount of property used by the enterprise. If the decision is made to proceed with a payment, the amount would be the community's commercial tax rate multiplied by the assessed value of the enterprise's land, buildings and personal property.

Notwithstanding the foregoing, it must be noted that from a legal point of view, it is not at all clear to what extent a court would consider a payment to be part of the actual cost of providing the service, and therefore an appropriate component of the enterprise's fee structure.

9. Should services provided by other departments be billed directly to the enterprise fund?

Any services provided by other departments and indirect expenses of the enterprise that have been funded through a general fund appropriation should be reimbursed to the general fund through inter-fund transfers from the enterprise fund. Ideally, these transfers should be done monthly so the enterprise fund expenses are tracked and its financial position is accurately reflected. (See IGR Section III-C-6 and Table 3 – Budget Recommendation Wording – for more information regarding indirect costs.)

10. What happens if there is a disagreement on the indirect costs (e.g., which expenses and how much) of an enterprise fund?

Indirect costs should be clearly set forth (e.g., what costs will be shared and how much) when the budget is adopted to avoid disputes later in the fiscal year. Ideally, it should be set forth in writing. Resolution of any disagreement is purely a local matter. The Director of Accounts may request documentation of the city or town's methodology and may reject the methodology and/or amount for tax rate certification purposes if deemed unreasonable.

11. Does an enterprise fund operating loss have to be funded in the next fiscal year?

No. An operating loss (generally budgeted revenues in excess of actual revenues plus unspent appropriations) will not have to be funded unless the operating loss results in a retained earnings deficit. A retained earnings deficit must be funded in the following fiscal year. The Bureau of Accounts recommends, however, that local financial officials and rate setters take note of a revenue shortfall and take appropriate action (e.g., raise rates, bill timelier, curtail expenses). The Bureau of Accounts will review matters in more detail if reductions to retained earnings caused by revenue deficits recur.

The Director of Accounts may reject a tax rate for overestimated enterprise revenues which may require further city council/town meeting action.

12. How is enterprise fund accounting different from other governmental accounting?

For UMAS and Tax Rate Recap purposes, revenues are recognized when received and expenses when the liabilities are incurred, under a modified accrual basis of accounting. For audited financial statement reporting purposes, revenues are recognized when earned and expenses when the liabilities are incurred, under a full accrual basis of accounting.

13. Is the treasurer required to maintain a separate bank account for the enterprise fund?

No. A separate enterprise fund bank account does not have to be maintained. Cash may be pooled for investment purposes. However, the accountant/auditor must account for enterprise fund cash separately in the general ledger. Investment income must be allocated proportionately to each fund.

14. Can a legislative body vote to use enterprise funds for purposes not related to the enterprise?

No. The enterprise enabling statute provides that the enterprise revenues may only be used for enterprise-related expenses.

15. If a community owns property that directly relates to the operation of an enterprise service and the property is subsequently leased, are the lease funds credited to the enterprise fund or to the general fund?

First, it should be noted that the city or town department operating the enterprise can only lease or rent property under its control if it is specifically authorized by statute or, in the absence of statute, with legislative body approval.

With regard to the treatment of lease revenue (rental receipts), it would depend on the acquisition of the property. If the property was acquired with enterprise fund revenue, or is currently maintained or debt service on the property is being paid by the enterprise, then lease revenues would be credited to the enterprise fund. If the property was transferred to the enterprise fund or paid for with general fund revenue and the property is not dedicated to the enterprise service's use, then the lease revenue is general revenue and should be credited to the general fund.

16. What is the procedure for a community to rescind (terminate) its separate water and sewer enterprise funds and adopt a combined single water and sewer enterprise fund?

A city/town may adopt a single enterprise for the operation of more than one utility if the same board has authority to operate both utilities, to submit the budget for both utilities and has spending authority for both utilities. For example, some communities have a water and sewer commission or the DPW manages both utilities.

The procedure for rescinding the existing two separate enterprise funds is the same as stated in IGR Section II above – the legislative body must vote to rescind each fund. Each rescinded enterprise fund must then be closed in the same manner as IGR Section II. Once each enterprise

ceases operation and the current liabilities of each are accounted for, the community closes the fund balance of each enterprise to the general fund and transfers any assets, debt and long term liabilities to the general fund and to the appropriate account groups. Any surplus/deficits of the two closed individual enterprise funds are then included in the city/town's calculations for the certification of free cash by the Bureau of Accounts. Once free cash is certified, it is available for appropriation.

To establish a new combined single water and sewer enterprise fund, the process in FAQ # 1 above must be followed. The user fees for each service should be separately established, especially if the users of the water service are not identical to the users of the sewer service. The standards in the *Emerson* case, described in FAQ # 4 above, for the establishment of reasonable fees must be met - the fee for each service must be reflective of the cost of each service and not designed to raise general revenue or provide a subsidy to the other utility. Otherwise, the city/town could be subject to a rate-payer's challenge regarding the reasonableness of the fees.

17. If a community votes to rescind its separate water and sewer enterprise funds and adopt a new combined water and sewer enterprise fund, can it transfer any surplus from the two rescinded enterprise funds to the new combined water-sewer enterprise fund?

The community must follow the procedure described in FAQ #16. After the vote to terminate the two separate enterprise funds, each fund must close to the general fund where any surplus/deficit is included in the calculation of the community's free cash. Once free cash is certified, the legislative body may appropriate from free cash to provide a general fund subsidy to the newly formed combined water-sewer enterprise fund.

18. When converting from a special revenue fund to an enterprise fund, must the fund balance in the special revenue fund be transferred to the enterprise fund?

The fund balance may be transferred to the enterprise fund by vote of the legislative body. In addition, account #3211-Fund Balance Reserved for Encumbrances should be closed to Unreserved Retained Earnings.

19. When converting from a special revenue fund to an enterprise fund, must the special revenue fund be revoked?

Authorization for the special revenue fund should be revoked to coincide with commencement of the enterprise fund. The adoption of an enterprise fund ends activity in the special revenue fund established for that same purpose as of the adoption date of the enterprise fund.

20. If after the establishment of an enterprise fund, a reservation once made in the special revenue fund is rescinded, do funds revert to the enterprise or general fund?

The funds revert to Unreserved Retained Earnings of the enterprise fund.

21. Does a general fund subsidy have to be appropriated?

There are three potential general fund subsidies of an enterprise fund: (a) for a portion of direct costs, (b) for a portion or all of the indirect costs, (c) for a portion or all of a retained earnings deficit from the prior fiscal year. Appropriations are required for subsidies described in (a) and (b). A subsidy of direct costs described in (a) must be voted as indicated in the third column of Tables 3 and 4 of these guidelines. A subsidy for indirect costs described in (b) are voted from the general or other fund. Funding a retained earnings deficit from the general fund, described in (c), may be by appropriation or by addition to Part IIB of the Tax Rate Recap as an Other Amount to be Raised.

22. Should an enterprise fund budget for depreciation?

No. Depreciation is a technical accounting term to match costs specific to a certain accounting period with the associated revenues. However, the city or town may budget for the replacement of capital assets through a particular purpose stabilization fund (See [IGR 2017-20, Stabilization Funds](#)) or by a separate warrant article. In addition, because enterprise retained earnings may be appropriated for any direct cost of the enterprise in a fiscal year, including replacement of capital assets, a city or town could, as a matter of policy, use enterprise retained earnings for such purpose. (For more information on retained earnings, See Section III-B-7 above.)

23. If budgeting a surplus in the enterprise fund, can it be appropriated during the fiscal year before an actual surplus is determined?

Yes. A budgeted surplus is considered available on July 1. However, budgeted surplus cannot be transferred by the legislative body to reimburse the general or other fund for costs incurred in any prior fiscal year. A budgeted surplus, if not appropriated, closes to enterprise fund balance at the end of the fiscal year. (See the second column in Table 3 for an example of a budgeted surplus.)

24. What information is necessary for the Director of Accounts to certify retained earnings of the enterprise fund as of June 30?

Retained earnings is certified by the Director of Accounts based upon receipt of a balance sheet as of June 30. The balance sheet submission must be accompanied by all information necessary to calculate free cash in the general fund. A balance sheet for the enterprise fund

alone will not suffice. Additional information necessary for certification is provided in an annual year-end letter from the Director to Accountants and Auditors.

25. For bills issued and payable after June 30, are revenues credited to retained earnings of the enterprise as of June 30?

Once certified as of June 30 by the Director of Accounts, revenues received after June 30 may be considered at the discretion of the Director.

26. Can retained earnings reimburse the general fund for a subsidy granted to this activity when it was in a special revenue fund?

Retained earnings may reimburse the general fund for capital costs only, provided the reimbursement follows the two full, immediately prior fiscal year rule.

27. Are indirect costs paid out of the general fund or enterprise fund?

Indirect costs appropriated as part of the general fund operating budget or from any other fund should be paid from that fund. Enterprise revenue to the extent budgeted is transferred into the general fund to provide the source of funding.

28. Can retained earnings be used to reduce rates?

Yes. Retained earnings can be used to replace user charges as a funding source of the enterprise or as an additional revenue source to the enterprise to prevent the need to increase rates.

29. Is there a limitation on the amount of retained earnings that an enterprise fund may have?

No.

30. May an enterprise budget allow for unforeseen expenditures or a reserve fund?

The legislative body may adopt an enterprise budget that includes an appropriation for extraordinary and unforeseen expenses and it may also impose any condition(s) for its use. This is similar to a Reserve Fund. Any unspent balance closes to the enterprise fund at fiscal year-end and becomes part of the calculation for retained earnings. See Section III-C above. See also the information in FAQ #24 for including a budgeted surplus in an enterprise fund budget.)

31. We plan to vote to establish a new enterprise fund at our annual town meeting in May to commence on July 1. Must we comply with the requirement that a proposed line item budget for the enterprise be submitted “no later than one hundred and twenty days prior to the beginning of each fiscal year” (March 1)?

No. For the start-up of a new enterprise fund, the 120-day rule would not apply. That rule is for an ongoing enterprise to ensure an orderly budget process each fiscal year. In this case (the initial year of the enterprise), the town will vote to adopt the enterprise and then vote to adopt an enterprise budget before setting the tax rate so the enterprise budget can be included in the tax recap.

32. Where is a special purpose stabilization fund for an enterprise fund recorded?

In accordance with [G.L. c. 40, § 5B](#), a municipality may establish a special purpose stabilization fund for an enterprise. (See Section III-B-6 above and [IGR 2017-20, Stabilization Funds](#)). However, the stabilization fund would not be recorded in the enterprise fund; it is recorded as a trust fund with the city’s or town’s other stabilization fund(s) within the general fund.

APPENDIX B

RETAINED EARNINGS DEFICIT

At the beginning of any fiscal year, an enterprise fund may be budgeted as self-sufficient. However, at fiscal-year end, the enterprise fund may experience an operating loss (generally - actual revenues less than budgeted not offset by unspent appropriations). All else being equal, this operating loss will reduce Unreserved Retained Earnings and retained earnings. Local financial officials and rate setters should take note of revenue shortfalls and should take appropriate action (*e.g.*, raise rates, bill more timely, curtail expenses). The Bureau of Accounts will not require that an enterprise fund revenue deficit be funded on the Tax Rate Recap, but will review matters in more detail if reductions to retained earnings caused by revenue deficits recur.

If retained earnings are certified in deficit by the Director of Accounts, they must be reported and funded as indicated in these guidelines. No further entry is necessary on the books as of June 30.

If subsequent fiscal year retained earnings are certified in the positive, the Bureau of Accounts will not allow the legislative body to transfer from retained earnings to reimburse the general fund for a subsidized retained earnings deficit. As indicated in these guidelines, retained earnings can only be appropriated by the legislative body to reimburse the general fund for a capital cost subsidy in either of the two full, immediately prior fiscal years.