



Enterprise Funds

G.L. c. 44, § 53F½

April 2008

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Informational Guideline Release (IGR) No. 08-101
April 2008

**Supersedes June 2002 Enterprise Fund Manual
and
Any Prior Written Inconsistent 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.

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 standards and policies are effective as of June 30, 2008 and supersede those found in the June 2002 Enterprise Fund manual and any prior written inconsistent publications or statements.

BUREAU OF ACCOUNTS

GERARD D. PERRY, DIRECTOR

SIGNIFICANT RULE CHANGES

The following are significant rule changes incorporated in these guidelines. Their effective date is June 30, 2008.

- *Use of retained earnings.* Retained earnings may be appropriated to:
 1. fund direct costs of the enterprise for the current fiscal year;
 2. fund costs appropriated in the General Fund operating budget and allocated to the enterprise for the current fiscal year;
 3. 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.

- *Reporting of a retained earnings reimbursement.* Retained earnings appropriated specifically to reimburse the General Fund for subsidized capital costs 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.

- *Funding a retained earnings deficit.* A retained earnings deficit for the period ending June 30 must be reported and funded in the next fiscal year's tax rate. A community no longer needs to report and fund an enterprise fund revenue deficit. A retained earnings deficit must be raised from the tax levy as a General Fund subsidy unless the community:
 1. appropriates from the General or other applicable fund specifically for the purpose of funding the deficit; or
 2. increases enterprise estimated revenues above the amount appropriated for enterprise direct and indirect expenses, provided the additional estimated revenues can be properly supported.

- *Indirect cost allocation methodology.* 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 in 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.

- *Appropriation for indirect costs.* Indirect costs are generally appropriated as part of the General Fund operating budget and 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.

- In the Bureau of Accounts' FY2007 end-of-year letter, the Bureau advised that "should a fund balance deficit occur as of June 30, 2007 and as of June 30, 2008 (two consecutive years), General Fund free cash as of June 30, 2008 will be reduced by the enterprise fund deficit balance." The policy has been revised and a General Fund reduction will not occur.

INTRODUCTION

BRIEF HISTORY

The enterprise fund statute, G.L. c.44, § 53F½, was initially enacted in 1986 (see Appendix A). 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 fixed assets of the service.

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 with financial statements separate from all other governmental activities. (See Uniform Massachusetts Accounting System (UMAS) chapter 12 for more information including illustrative journal entries).

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 fund or a reimbursement from the enterprise fund to other funds for subsidized costs incurred in the two full, immediately prior fiscal years.
- 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 fixed 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.

WHAT GOVERNMENTAL ENTITY MAY ADOPT ENTERPRISE FUND ACCOUNTING

Only Massachusetts cities and towns may adopt an enterprise fund pursuant to G.L. c.44, § 53F½. Regional school, vocational-technical school and/or special purpose districts may not adopt an enterprise fund, unless permitted by special legislation.

FOR WHAT SERVICES CAN A COMMUNITY ADOPT AN ENTERPRISE FUND

Enterprise funds may be established, “for a utility, health care, recreational or transportation facility.” Examples include:

- Public utilities – water, sewer, trash disposal;
- Health care – ambulance service, nursing homes;
- Recreation – skating rinks, pools, golf courses; and
- Transportation – airports, dock and wharf facilities.

A community may not establish enterprise funds for normal government operations or services such as public safety, inspectional services or cemeteries.

ADOPTING 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 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 language of the vote should clearly state what the service is and when the fund will commence. 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 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.

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 Informational Guideline Release No. 06-209, *Appropriation Transfers*.

REVENUES OF AN ENTERPRISE FUND

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, new rate implementation dates, etc., for tax rate certification purposes. Any surplus is kept by the enterprise fund at fiscal year-end.

- *User charges and fees* are amounts paid by those who use the service. These include late charges, fees and interest incurred in the collection process.
- *Other departmental revenue* includes state funding (Sewer Rate Relief), grants (Massachusetts Water Pollution Abatement Trust), a bond anticipation note premium or bond premium, apportioned or unapportioned betterments and special assessments.
- *Investment income* is interest earned by the fund and is retained in the fund rather than closed to the General Fund.

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.

- *Estimated sewer assessments* pursuant to G.L. c. 83, § 15B;
- *Closing and post-closing funds reserved for an existing operating solid waste facility* pursuant to G.L. c.44, § 28C;

- *Special purpose article(s)*, the unspent and unencumbered balance, as voted by the community's legislative body;
- *Budgeted surplus*, the excess of budgeted estimated 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.

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.

- *Retained Earnings*, the portion of Net Assets Unrestricted 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. 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 be appropriated to:

1. fund direct costs of the enterprise for the current fiscal year;
2. fund costs appropriated in the General Fund operating budget and allocated to the enterprise for the current fiscal year;
3. 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.

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 reported and funded in the next fiscal year's Tax Rate Recap. A community no longer needs to report and fund an enterprise fund revenue deficit. A community has the following options for reporting and funding a retained earnings deficit:

1. report an appropriation made by the legislative body from the General or other applicable fund specifically to fund the deficit;
2. report the deficit in part 3 of Schedule A-2 and Part IIB, line 6, 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.
3. report the deficit in part 3 of the Schedule A-2 and Part IIB, line 6, of the Tax Rate Recap, and raise it from the tax levy as a General Fund subsidy.

In the Bureau of Accounts FY2007 end-of-year letter, the Bureau advised that "should a fund balance deficit occur as of June 30, 2007 and as of June 30, 2008 (two consecutive years), the General Fund free cash as of June 30, 2008 will be reduced by the enterprise fund deficit balance." This policy has been revised and a General Fund reduction will not occur.

EXPENSES OF AN ENTERPRISE FUND

All costs of operating the enterprise must be identified (see *Costing Municipal Services: Workbook and Case Study* at www.mass.gov/dls). 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 is kept by the enterprise fund.

- *Salaries and Wages*, appropriated in and incurred directly by the enterprise for the enterprise employees.
- *Expenses*, appropriated in and incurred directly by the enterprise for operating expenses and contractual payments.
- *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.
- *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.
- *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.
- *Indirect costs*, most oftentimes appropriated as part of the General Fund operating budget and allocated to the enterprise fund, cannot be directly or exclusively assigned to one service. For example, the collector, whose salary is paid by the General Fund, may process enterprise user bill payments.

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 in 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.

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
<p>The enterprise fund estimated revenues are sufficient to cover the budget of the service.</p>	<p>The enterprise fund estimated revenues exceed the budget. 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.</p>	<p>The enterprise fund estimated revenues are below the budgeted amount. 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.</p>

Table 2 below depicts three examples of presenting an enterprise budget and how each is balanced. In the second column, the budgeted surplus must be first appropriated 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.

TABLE 2: BUDGET PRESENTATION EXAMPLES

Budgeted Self-Sufficient	Budgeted Surplus	Budgeted Subsidy
Estimated Revenues User fees \$500,000 Betterments 25,000 Investment income <u>14,000</u> Subtotal: \$539,000 Retained Earnings <u>50,000</u> Total: \$589,000	Estimated Revenues User fees \$575,000 Betterments 25,000 Investment income <u>14,000</u> Subtotal: \$614,000 Retained Earnings <u>50,000</u> Total: \$664,000	Estimated Revenues User fees \$340,000 Betterments 25,000 Investment income <u>14,000</u> Subtotal: \$379,000 Retained Earnings <u>50,000</u> Total: \$429,000
Budget <u>Direct</u> Salaries \$254,000 Expenses 8,000 Capital outlay 125,000 Debt 45,000 Extra/Unforeseen <u>10,000</u> Subtotal: \$442,000 <u>Indirect</u> 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 Total: \$589,000	Budget <u>Direct</u> Salaries \$254,000 Expenses 8,000 Capital outlay 125,000 Debt 45,000 Extra/Unforeseen <u>10,000</u> Subtotal: \$442,000 <u>Indirect</u> 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 Total: \$589,000	Budget <u>Direct</u> Salaries \$254,000 Expenses 8,000 Capital outlay 125,000 Debt 45,000 Extra/Unforeseen <u>10,000</u> Subtotal: \$442,000 <u>Indirect</u> 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 Total: \$589,000
Surplus/(deficit) \$0	Surplus/(deficit) \$75,000 Budgeted Surplus \$75,000	Surplus/(deficit) (\$160,000) Budgeted Subsidy \$160,000

ADOPTING AN ENTERPRISE BUDGET

In Table 3, indirect costs will be appropriated as part of the city or town’s 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.

TABLE 3: BUDGET RECOMMENDATION WORDING

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;
\$147,000 to be raised and appropriated in the General Fund operating budget and allocated to the enterprise fund for funding. <i>(Do not duplicate this appropriation in the enterprise fund budget.)</i>	\$147,000 to be raised and appropriated in the General Fund operating budget and allocated to the enterprise fund for funding. <i>(Do not duplicate this appropriation in the enterprise fund budget.)</i>	\$147,000 to be raised and appropriated in the General Fund operating budget. <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). Note that \$147,000 of costs has already been included for appropriation in the General Fund’s operating budget.

TABLE 4: 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>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>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>	<p>Voted: That the following sums be appropriated for the ___ enterprise.</p>	<p>Voted: That the following sums be appropriated for the ___ enterprise.</p>																																						
<table border="0"> <tr><td>Salaries</td><td style="text-align: right;">\$254,000</td></tr> <tr><td>Expenses</td><td style="text-align: right;">8,000</td></tr> <tr><td>Capital outlay</td><td style="text-align: right;">125,000</td></tr> <tr><td>Debt</td><td style="text-align: right;">45,000</td></tr> <tr><td>Extra/Unforeseen</td><td style="text-align: right;"><u>10,000</u></td></tr> <tr><td>Total:</td><td style="text-align: right;"><u>\$442,000</u></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>	<table border="0"> <tr><td>Salaries</td><td style="text-align: right;">\$254,000</td></tr> <tr><td>Expenses</td><td style="text-align: right;">8,000</td></tr> <tr><td>Capital outlay</td><td style="text-align: right;">125,000</td></tr> <tr><td>Debt</td><td style="text-align: right;">45,000</td></tr> <tr><td>Extra/Unforeseen</td><td style="text-align: right;">10,000</td></tr> <tr><td>Budgeted surplus</td><td style="text-align: right;"><u>75,000</u></td></tr> <tr><td>Total:</td><td style="text-align: right;"><u>\$517,000</u></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>	<table border="0"> <tr><td>Salaries</td><td style="text-align: right;">\$254,000</td></tr> <tr><td>Expenses</td><td style="text-align: right;">8,000</td></tr> <tr><td>Capital outlay</td><td style="text-align: right;">125,000</td></tr> <tr><td>Debt</td><td style="text-align: right;">45,000</td></tr> <tr><td>Extra/Unforeseen</td><td style="text-align: right;"><u>10,000</u></td></tr> <tr><td>Total:</td><td style="text-align: right;"><u>\$442,000</u></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>
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REPORTING ON 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 Tables 5 and 6) 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, Tables 5 and 6 represent Schedule A-2 using amounts from the three previous examples.

TABLE 5: SCHEDULE A-2, ENTERPRISE FUNDS, PAGE 1

1. Estimated Revenues & Available Funds	Budgeted Self-Sufficient	Budgeted Surplus	Budgeted Subsidy
a. User charges	\$500,000	\$575,000	\$340,000
Connection fees	0	0	0
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	50,000	50,000	50,000
Other enterprise available funds			
Total current year revenues and available funds	\$589,000	\$664,000	\$429,000
b. Retained Earnings appropriated (after the last tax rate was set) for PY costs	0	0	0
Other enterprise available funds appropriated (after the last tax rate was set) for PY costs	0	0	0
Total revenues and available funds appropriated for PY costs	0	0	0
Total revenues & available funds	\$589,000	\$664,000	\$429,000

TABLE 6: SCHEDULE A-2, ENTERPRISE FUNDS, PAGE 2

2a. Costs appropriated in the enterprise fund	Budgeted Self-Sufficient	Budgeted Surplus	Budgeted Subsidy
Salaries and wages	\$254,000	\$254,000	\$254,000
Expenses	8,000	8,000	8,000
Capital outlay	125,000	125,000	125,000
Extraordinary/Unforeseen	10,000	10,000	10,000
Other	45,000	120,000	45,000
PY costs appropriated	0	0	0
Total costs appropriated in fund	\$442,000	\$517,000	\$442,000

2b. Costs appropriated in General Fund	Budgeted Self-Sufficient	Budgeted Surplus	Budgeted Subsidy
Health insurance	\$61,000	\$61,000	\$61,000
Pensions	29,000	29,000	29,000
Shared employees	54,000	54,000	54,000
Shared facilities	0	0	0
Other	3,000	3,000	3,000
Other	0	0	0
Total costs appropriated in General Fund	\$147,000	\$147,000	\$147,000

3. Calculation of General Fund subsidy	Budgeted Self-Sufficient	Budgeted Surplus	Budgeted Subsidy
Revenues & available funds	\$589,000	\$664,000	\$429,000
Less total costs	589,000	664,000	589,000
Less prior year deficit	0	0	0
Surplus/(subsidy)	0	0	(\$160,000)

4. Source of funding for costs appropriated in enterprise fund	Budgeted Self-Sufficient	Budgeted Surplus	Budgeted Subsidy
a. Revenue and available funds	\$442,000	\$517,000	\$429,000
b. Taxation	0	0	10,000
c. Free cash	0	0	3,000
d. Non-enterprise available funds	0	0	0
Total Sources (must equal part 2a)	\$442,000	\$517,000	\$442,000

Example 1 – Budgeted Self-Sufficient

**BUREAU OF ACCOUNTS
SCHEDULE A-2
ENTERPRISE FUNDS CH.44 S.53F 1/2 et al
CITY/TOWN/DISTRICT**

City/Town/District

Type of enterprise fund/statutory reference

	(a) FY2007 Actual Revenues	(b) FY2008 Estimated Revenues
1. Enterprise revenues & available funds		
a. User charges	\$	\$ 500,000.00 *
Connection fees		0.00 *
Other departmental revenue		25,000.00 *
Investment income		14,000.00 *
Total revenues	0.00	539,000.00
Retained earnings appropriated **		50,000.00
Other enterprise available funds		0.00
Specify: _____		0.00
Total current year revenues and available funds	0.00	589,000.00
b. Retained earnings appropriated for PY costs **		0.00
Other enterprise available funds for PY costs		0.00
Total revenues and available funds for PY costs		0.00
Total revenues and available funds	\$ 0.00	\$ 589,000.00

To Recap pg 2,
Part IIIB, line 3

* Written documentation should be submitted to support increases/decreases of estimated revenues to actual revenues.

** Retained earnings should be certified by the Director of Accounts prior to appropriation.

I hereby certify that the amount of retained earnings reported in Part I column(b) correctly reflects the votes of town meeting/city council.

Clerk

Date

I hereby certify that the actual revenues as shown in part 1 column (a) are to the best of my knowledge correct and complete.

Accounting Officer

Date

We hereby attest that the revenues itemized above have not been used as a revenue source elsewhere on the Tax Rate or Pro Forma recap.

Board of Assessors

Date

Example 1 – Budgeted Self-Sufficient

2. Total costs appropriated

a. Costs appropriated in the enterprise fund

Salaries and wages	\$	254,000.00	
Expenses		8,000.00	
Capital outlay		125,000.00	
Extraordinary/Unforeseen		10,000.00	
Other:--> <u>debt</u>		45,000.00	
Prior year costs appropriated from retained earnings or other enterprise available funds		0.00	(Must equal total part 1b)
Total costs appropriated in enterprise fund	\$	442,000.00	

b. Costs appropriated in general fund (to be transferred to the enterprise fund)

Health insurance	\$	61,000.00	
Pensions		29,000.00	
Shared employees		54,000.00	
Shared facilities		0.00	
Other:--> <u>FICA</u>		3,000.00	
Other:--> _____		0.00	
Total costs appropriated in general fund	\$	147,000.00	
Total Costs	\$	589,000.00	

3. Calculation of general fund subsidy (see instructions)

Revenue & available funds	\$	589,000.00	(part 1, col. b)
less: Total costs		589,000.00	(part 2)
less: Prior year deficit		0.00	To Recap pg. 2
(Negative represents general fund subsidy)	\$	0.00	Part IIB

You Must Complete Part 4

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

a. Revenue and available funds	\$	442,000.00	To Recap Page 4, Col e
b. Taxation		0.00	
c. Free cash		0.00	
d. Non-Enterprise Available Funds		0.00	

Total Sources of Funding for Costs Appropriated in the Enterprise Fund (must equal total part 2a)	\$	442,000.00	This amount must equal line 2a above, "Total Costs Appropriated in Enterprise Fund"
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Board of Commissioners

Example 2 – Budgeted Surplus

2. Total costs appropriated

a. Costs appropriated in the enterprise fund

Salaries and wages	\$	254,000.00	
Expenses		8,000.00	
Capital outlay		125,000.00	
Extraordinary/Unforeseen		10,000.00	
Other:---> _____		120,000.00	
Prior year costs appropriated from retained earnings or other enterprise available funds		0.00	(Must equal total part 1b)
Total costs appropriated in enterprise fund	\$	517,000.00	

b. Costs appropriated in the General Fund

Health insurance	\$	61,000.00
Pensions		29,000.00
Shared employees		54,000.00
Shared facilities		0.00
Other:---> FICA _____		3,000.00
Other:---> _____		0.00

Total costs appropriated in the General Fund \$ 147,000.00

Total Costs \$ 664,000.00

3. Calculation of General or other fund subsidy (see instructions)

Revenue & available funds	\$	664,000.00	(part 1, col. b)
less: Total costs		664,000.00	(part 2)
less: Prior year deficit		0.00	To Recap pg. 2
(Negative represents General or other fund subsidy)	\$	0.00	Part IIB

You Must Complete Part 4

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

a. Revenue and available funds	\$	517,000.00	To Recap Page 4, Col e
b. Taxation		0.00	
c. Free cash		0.00	
d. Non-Enterprise Available Funds		0.00	

Total Sources of Funding for Costs Appropriated in the Enterprise Fund (must equal total part 2a) \$ 517,000.00

This amount must equal line 2a above, "Total Costs Appropriated in Enterprise Fund"

Board of Commissioners

Example 3 – Budgeted Subsidy

**BUREAU OF ACCOUNTS
SCHEDULE A-2
ENTERPRISE FUNDS CH.44 S.53F 1/2 et al
CITY/TOWN/DISTRICT**

City/Town/District

Type of enterprise fund/statutory reference

	(a) FY2007 Actual Revenues	(b) FY2008 Estimated Revenues
1. Enterprise revenues & available funds		
a. User charges	\$	\$ 340,000.00 *
Connection fees		*
Other departmental revenue		25,000.00 *
Investment income		14,000.00 *
Total revenues	0.00	379,000.00
Retained earnings appropriated **		50,000.00
Other enterprise available funds		0.00
Specify: _____		0.00
Total current year revenues and available funds	0.00	429,000.00
b. Retained earnings appropriated for PY costs **		0.00
Other enterprise available funds for PY costs		0.00
Total revenues and available funds for PY costs		0.00
Total revenues and available funds	\$ 0.00	\$ 429,000.00

To Recap pg 2,
Part IIIB, line 3

* Written documentation should be submitted to support increases/decreases of estimated revenues to actual revenues.

** Retained earnings should be certified by the Director of Accounts prior to appropriation.

I hereby certify that the amount of retained earnings reported in Part I column(b) correctly reflects the votes of town meeting/city council.

Clerk

Date

I hereby certify that the actual revenues as shown in part 1 column (a) are to the best of my knowledge correct and complete.

Accounting Officer

Date

We hereby attest that the revenues itemized above have not been used as a revenue source elsewhere on the Tax Rate or Pro Forma recap.

Board of Assessors

Date

Example 3 – Budgeted Subsidy

2. Total costs appropriated

a. Costs appropriated in the enterprise fund

Salaries and wages	\$	254,000.00	
Expenses		8,000.00	
Capital outlay		125,000.00	
Extraordinary/Unforeseen		10,000.00	
Other:--> _____		45,000.00	
Prior year costs appropriated from retained earnings or other enterprise available funds		0.00	(Must equal total part 1b)
Total costs appropriated in enterprise fund	\$		442,000.00

b. Costs appropriated in the General Fund

Health insurance	\$	61,000.00	
Pensions		29,000.00	
Shared employees		54,000.00	
Shared facilities		0.00	
Other:--> FICA		3,000.00	
Other:--> _____		0.00	
Total costs appropriated in the General Fund	\$		147,000.00
Total Costs	\$		589,000.00

3. Calculation of General or other fund subsidy (see instructions)

Revenue & available funds	\$	429,000.00	(part 1, col. b)
less: Total costs		589,000.00	(part 2)
less: Prior year deficit		0.00	To Recap pg. 2
			Part IIB
(Negative represents General or other fund subsidy)	\$		-160,000.00

You Must Complete Part 4

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

a. Revenue and available funds	\$	429,000.00	To Recap Page 4, Col e
b. Taxation		10,000.00	
c. Free cash		3,000.00	
d. Non-Enterprise Available Funds		0.00	
Total Sources of Funding for Costs Appropriated in the Enterprise Fund (must equal total part 2a)	\$	442,000.00	This amount must equal line 2a above, "Total Costs Appropriated in Enterprise Fund"

Board of Commissioners

From the Schedule A-2, information is transferred and reported on the Tax Rate Recap form on pages 4 (Table 7) and 2 (Table 8) 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 7: CERTIFICATION OF APPROPRIATIONS AND SOURCES OF FUNDING (TAX RATE RECAPITULATION FORM, PAGE 4)

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

APPROPRIATIONS						
City/Town Council or Town Meeting Dates	FY*	(a) Total Appropriations Of Each Meeting	(b) ** From Raise and Appropriate (Tax Levy)	(c) From Free Cash See B-1	(d) From Other Available Funds See B-2	(e) From Offset Receipts, See A-1 or Enterprise Funds, See A-2 Community Preservation See A-4
xx	xx	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				
Totals		589,000.00	147,000.00	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.

*** Include only revolving funds pursuant to Chapter 44, Section 53 E 1/2.

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

City/Town

Date

Clerk

TABLE 8: 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 form 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>\$ 589,000.00</u>

III. Estimated receipts and other revenue sources

Illa. 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>589,000.00</u>
4. Community preservation funds (See Schedule A-4)	<u>0.00</u>
TOTAL IIIb	<u>589,000.00</u>
IIIc. Revenue sources appropriated for particular purposes	
1. Free cash (Page 4, col. (c))	<u>0.00</u>
2. Other available funds (Page 4, col. (d))	<u>0.00</u>
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>\$ 589,000.00</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)	\$ <u>0.00</u>
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

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>\$ 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)	0.00	
2. Offset receipts (See Schedule A-1)	0.00	
3. Enterprise funds (See Schedule A-2)	429,000.00	
4. Community preservation funds (See Schedule A-4)	0.00	
TOTAL IIIb		<u>429,000.00</u>
IIIc. Revenue sources appropriated for particular purposes		
1. Free cash (Page 4, col. (c))	3,000.00	
2. Other available funds (Page 4, col. (d))	0.00	
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 Ile)		\$ <u>589,000.00</u>
b. Total estimated receipts and other revenue sources (from IIIe)	\$ 432,000.00	
c. Total real and personal property tax levy (from Ic)	\$ 157,000.00	
d. Total receipts from all sources (total IVb plus IVc)		<u>\$ 589,000.00</u>

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 NET ASSETS UNRESTRICTED	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 NET ASSETS UNRESTRICTED	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 NET ASSETS UNRESTRICTED	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 NET ASSETS UNRESTRICTED		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 NET ASSETS UNRESTRICTED		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 NET ASSETS UNRESTRICTED		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.

FREQUENTLY ASKED QUESTIONS

1. *Can a community establish a gas or electric enterprise fund under G.L. c. 44, § 53F½?*

No. A gas and/or electric department would be established under G.L. c. 164.

2. *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.

3. *Can a mayor or board of selectmen decide to operate an enterprise fund for a particular service?*

No. The town council or town meeting must vote to adopt G.L. c. 44, § 53F½ in a town and the city council, with approval of the mayor. These bodies may vote an enterprise fund only for purposes indicated in the statute.

4. *Who determines user fees?*

The board or officer designated under the general enabling legislation or local charter determines the user fees. The fees imposed for any municipal service must comply with legal standards.

5. *Does a Proposition 2½ debt exclusion amount for an enterprise fund have to be reduced by user fees and/or special assessments 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, betterments 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 providing the service. An enterprise is still a municipal department that is subject to ordinary municipal finance procedures. The rate setting process is established by statute or local

charter. Any enterprise fund property/asset is owned by the municipality 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?*

G.L. c. 44, § 53F½ states that the books and records of the enterprise shall be maintained in accordance with generally accepted accounting principles (GAAP). 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?*

No. Any services provided by other departments and indirect expenses 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.

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?*

Beginning June 30, 2008, the revenue account will close to net assets unrestricted. 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. The 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 more timely, 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 disposition of the funds, 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 happens if a community decides it no longer wants to have an enterprise fund?

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.

17. If the staff of an enterprise performs a service for another town department, can the enterprise fund be reimbursed for that service?

It is not appropriate for a town department to charge another town department, or for an enterprise fund to charge another fund for goods or services because the department operating the enterprise fund is not a separate and distinct legal entity. However, it is appropriate for those services to be taken into account in the budget process.

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 Net Assets Unrestricted.

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 Net Assets Unrestricted 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. A subsidy of direct costs must be voted as indicated in the third column of Tables 3 and 4 of these guidelines. Indirect costs are voted from the General or other fund. Funding a retained earnings deficit from the General Fund 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 Informational Guideline Release 04-201, *Creation of Multiple Stabilization Funds and Proposition 2 ½ Overrides for Stabilization Funds*) or by a separate warrant article.

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. Budgeted surplus cannot be transferred by the legislative body to reimburse the General or other Fund for costs incurred in any prior fiscal year.

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. Must betterments and special assessments be closed to net assets unrestricted at fiscal year's end?

Yes. Estimated sewer assessments, however, remain open and are held for payment of debt service pursuant to G.L. Ch. 83, § 15A.

28. 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.

29. 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.

APPENDIX A: ENTERPRISE FUND LEGISLATION

G.L. c. 44, § 53F½

Notwithstanding the provisions of section fifty-three or any other provision of law to the contrary, a city or town which accepts the provisions of this section may establish a separate account classified as an "Enterprise Fund", for a utility, health care, recreational or transportation facility, and its operation, as the city or town may designate, hereinafter referred to as the enterprise. Such account shall be maintained by the treasurer, and all receipts, revenues and funds from any source derived from all activities of the enterprise shall be deposited in such separate account. The treasurer may invest the funds in such separate account in the manner authorized by sections fifty-five and fifty-five A of chapter forty-four. Any interest earned thereon shall be credited to and become part of such separate account. The books and records of the enterprise shall be maintained in accordance with generally accepted accounting principles and in accordance with the requirements of section thirty-eight.

No later than one hundred and twenty days prior to the beginning of each fiscal year, an estimate of the income for the ensuing fiscal year and a proposed line item budget of the enterprise shall be submitted to the mayor, board of selectmen or other executive authority of the city or town by the appropriate local entity responsible for operations of the enterprise. Said board, mayor or other executive authority shall submit its recommendation to the town meeting, town council or city council, as the case may be, which shall act upon the budget in the same manner as all other budgets.

The city or town shall include in its tax levy for the fiscal year the amount appropriated for the total expenses of the enterprise and an estimate of the income to be derived by the operations of the enterprise. If the estimated income is less than the total appropriation, the difference shall be added to the tax levy and raised by taxation. If the estimated income is more than the total appropriation, the excess shall be appropriated to a separate reserve fund and used for capital expenditures of the enterprise, subject to appropriation, or to reduce user charges if authorized by the appropriate entity responsible for operations of the enterprise. If during a fiscal year the enterprise incurs a loss, such loss shall be included in the succeeding fiscal year's budget.

If during a fiscal year the enterprise produces a surplus, such surplus shall be kept in such separate reserve fund and used for the purposes provided therefor in this section.

For the purposes of this section, acceptance in a city shall be by vote of the city council and approval of the mayor, in a town, by vote of a special or annual town meeting and in any other municipality by vote of the legislative body.

A city or town which has accepted the provisions of this section with respect to a designated enterprise may, in like manner, revoke its acceptance.

APPENDIX B: A 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 net assets unrestricted 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. However, 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.