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Increasingly, communities are establishing enterprise funds for their business-type services (e.g., water, sewer, trash disposal, ambulance services, skating rinks, golf courses, airports, etc.). A community adopts an enterprise by a vote of town meeting or city council with the mayor's approval. The enterprise fund establishes a separate accounting and financial reporting mechanism for a municipal service for which a fee is charged in exchange for goods or services ([M.G.L. c. 44, §53F½](#)). Under enterprise accounting, the service's revenues and expenditures are segregated into a separate fund with its own financial statements, rather than being commingled with the revenues and expenses of all other governmental activities.

Enterprise accounting allows a community to demonstrate to the public the total cost of providing a service by consolidating all the program's direct and indirect costs (e.g., interdepartmental support, insurance costs, etc.), debt service, and capital expenditures into a segregated fund. To support the service, a community may choose to recover total costs through user charges (rates), through a tax levy subsidy, or through appropriation of other available funds.

At year-end, the enterprise fund's performance is measured in terms of positive (surplus) or negative (deficit) operations. An operating surplus results from revenue collected in excess of estimates and appropriation turnbacks and translates into retained earnings, which are retained in the fund rather than closing to the general fund. The Division of Local Services (DLS) Director of Accounts must certify enterprise fund retained earnings as an available fund based on the community's submission of a June 30<sup>th</sup> balance sheet to DLS. Once certified, retained earnings may be appropriated only for expenditures relating to the enterprise fund.

The consolidation of a program's revenues and costs combined with information on the fund's operating performance (positive or negative) provides the community with useful information to make decisions on user charges and other budgetary items. The community can analyze how much the user fees and charges support the service and the extent to which the tax levy or any other available revenues may be needed to subsidize the enterprise fund. The community can include the enterprise's fixed assets and infrastructure as assets in financial statements and recognize these assets' annual depreciation.

Establishing an enterprise fund does not create a separate, autonomous entity from the municipal government operation. Like every other department, the municipal department overseeing the enterprise service prepares a budget to be reviewed and analyzed. The budget and any line-item transfers among the enterprise fund's appropriations still require action by the mayor and council or town meeting. And

the enterprise-related department must fulfill the same financial and managerial reporting requirements as any other department.

For further information on enterprise funds, please refer to our guidance issued in April 2021 as [IGR-2021-11, Enterprise Funds](#).