

CHAPTER 18

ENTERPRISE FUNDS

Enterprise Funds are used to account for operations which are financed and operated in a manner similar to business operations and where the costs of providing goods or services are financed in whole or in part by user charges (charges for services). Services accounted for in Enterprise Funds are tangible and can be measured for the purpose of determining a charge for services.

In Massachusetts the most common types of government enterprises include utility or utility-type services for water treatment and delivery, sewerage collection and treatment, and electricity generation and distribution. Less common but prevalent operations include hospitals, airports, dock and wharf facilities, parking, swimming pools and golf courses.

Individual services must ordinarily be accounted for in separate Enterprise Funds. Segregation is essential for determining the total cost of services and the extent to which user charges cover that cost. Although a community may decide to recover only a portion of its costs from user charges, it is essential from a management point of view that it understands what its total costs are. Such costs include amounts for repayment of long-term debt and related interest and estimates for depreciation.

Enterprise Fund Accounting

The implementation of Enterprise Fund accounting is made difficult by:

- The diversity of enterprise activities and their related accounting requirements
- The availability of limited resources
- The lack of fixed asset records to support full compliance with GAAP

Diverse Accounting Requirements

While the accounting requirements for golf courses, dock and wharf facilities, sewerage and water treatment operations may be straightforward and similar to most commercial operations, the accounting requirements for hospitals and electric light utilities are significantly more complex. The complexity arises primarily from the fact that these enterprises are very much under the public scrutiny and subject to oversight body reviews for cost containments, reimbursements and fee structuring. The uniqueness of operations, combined with the informational requirements of the oversight bodies, have contributed to the development of specialized accounting regulations for hospitals and electric light utilities.

As these accounting requirements have become more complex and specialized, these entities developed their own resources for meeting their accounting requirements. Currently, municipal hospitals have large staffs for monitoring costs, patients, and third-party billing and often use computers to assist with these related tasks. Similarly, electric light utilities use computers to capture meter readings, control production and develop customer billings. Internal accounting records reflect depreciation estimates for recorded fixed assets.

Limited Resources

In contrast to the sophisticated accounting systems that have been developed for hospitals and electric light utilities, the accounting systems of the town accountant are generally maintained in manual ledgers and journals. Service bureau computers are frequently utilized for detailed applications such as payroll processing and tax billing. Records are maintained primarily on a cash basis throughout the year with year-end adjustments to convert liabilities to the accrual basis. Accounting offices are frequently understaffed and it is not uncommon for the chief accounting personnel in some municipalities to be employed on a part-time basis.

Fixed Assets

Accounting records heretofore maintained by town accountants and city auditors met the requirements of the former UMAS system. That system did not require Enterprise Funds and consequently the need to record fixed assets for control and depreciation purposes.

The development of historical fixed asset records for some enterprise funds may require a significant investment of time and effort.

Despite the lack of specific fixed asset accounting requirements, many communities have, however, for various other reasons, maintained these records for specific enterprise activities. At the present time, then, it is believed that Massachusetts municipalities can be classified into one of three situations with respect to the availability of fixed asset records for enterprise operations.

1. Enterprise activities where the cost of the required fixed asset has been capitalized in the municipality's accounting records and where depreciation has been recorded periodically on a systematic basis. Generally, any long-term debt incurred in connection with the construction or purchase of such fixed assets will have been accounted for in the related Enterprise Fund.
2. Enterprise activities where the cost of the original fixed asset has not been formally recorded in the accounting records, but where the information is readily available. Clearly, no depreciation will have been recorded to date. Any long-term debt issued in connection with the construction or purchase of such fixed assets will have been accounted for in the Long-term Debt Group of Accounts.
3. Enterprise activities where the cost of the original fixed asset has not been formally recorded in the accounting records and where the information is not readily available. Again, no depreciation will have been taken, and long-term debt issued in connection with the construction or purchase of such fixed assets will have been accounted for in the Long-term Debt Group of Accounts.

Many communities will find that one or more enterprises fit into classification 1, while others may fit into classifications 2 and/or 3.

Accounting Guidelines

To assist in dealing with these potential problems, guidelines for Enterprise Fund accounting have been developed, and are set forth below:

1. **Regulated Enterprises** - Most regulated enterprises (primarily hospitals and electric light utilities) should be able to prepare financial statements and maintain their accounting records in full compliance with GAAP. Such enterprises are expected to do so, with the municipal accountant or auditor maintaining control records oriented toward budgetary enforcement.
2. **Other Enterprise Funds** - Separate funds for water distribution and wastewater treatment operations will be maintained by municipal accountants. Municipalities which operate wastewater treatment facilities (treatment plants and pumping stations) should and are encouraged to account for such operations in a separate Enterprise Fund even though the vehicle for billing user charges may be the water bill. Other operations of an "enterprise" nature should also be accounted for in separate Enterprise Funds.
3. **Basis of Accounting** - Hospitals and electric light utilities will adopt accrual accounting in their internal records. For other Enterprise Funds, and for hospital and electric light utility transactions maintained in the municipal accountant's books, revenues will be fully reserved until collected while expenditures will be recorded as disbursed, except where an encumbrance system is utilized.
4. **Budgets** - Fixed dollar budgets are required for all Enterprise Funds and will be controlled by the municipal accounting department.
5. **Fixed Asset Accounting** - It is the intent of the revised accounting system to encourage proper accounting for fixed assets in a municipality's enterprise activities.

Fixed asset accounting is required of all Enterprise Funds for assets purchased after July 1, 1981, or as of the first day of the fiscal year in which this system is implemented (effective date)

The specific accounting procedures for fixed assets owned as of the effective date will, however, depend on the present status of fixed asset accounting in a given municipality. As explained above, the present status of fixed asset accounting for enterprise activities can be grouped into one of three classifications. The recommended fixed asset accounting for each of these classifications follows:

Classification 1 - Fixed assets presently recorded at cost, or other acceptable basis; depreciation being recorded periodically on a systematic basis.

Fixed assets in the accounting records on the date of system implementation should continue to be depreciated on a basis consistent with past practice.

Classification 2 - Fixed assets presently not recorded in the accounting records; information relating to the cost of the fixed asset readily available.

Fixed assets should be recorded as of the effective date at original cost. Allowable depreciation since acquisition should be calculated and recorded.

Classification 3 - Fixed assets presently not recorded in the accounting record; information relating to the cost of the fund asset not readily available.

Efforts should be made to investigate and obtain the original cost of all fixed assets utilized in the operation of enterprise activities. When this is deemed unreasonable to do, suitable alternative procedures should be undertaken to obtain a carrying basis for such assets.

6. **Depreciation** - Depreciation will be calculated on all fixed assets accounted for in the records by a municipal enterprise. As noted above, this will include all fixed assets acquired subsequent to the effective date, plus such other recorded fixed assets acquired prior to that date. In computing depreciation, the enterprise should utilize the accounting conventions (i.e., as to life and method) most commonly used by similar operations in the commercial field.
7. **Construction of Capital Facilities** - Construction of capital facilities for enterprise operations should be accounted for in the Enterprise Fund, whether funded by a municipality through grants, bond appropriations or other revenue sources.
8. **Long-term Debt Accounting** - Any long-term debt incurred in connection with the purchase or construction of a fixed asset of an Enterprise Fund should be accounted for in the related Enterprise Fund. For those municipalities which have long-term debt outstanding on the date of the system implementation, it will be necessary to reclassify any outstanding debt related to enterprise activities from the long-term debt group of accounts to the proper Enterprise Fund.
9. **Allocation for Shared Facilities** - If enterprise activities share facilities with either general governmental departments or with other enterprises, the costs associated with these facilities, including depreciation, utilities, repairs and maintenance, etc., where significant, should be allocated between them.
10. **Other Accounting Considerations** - In recording the fixed assets and the related long-term debt in an Enterprise Fund, careful consideration will have to be given to both the calculation of the amount of equity in the fixed asset and the accounts to be credited with the equity. In calculating the amount of equity, consideration will have to be given to:
 - The original cost of the asset and the amount of depreciation allowed or allowable since acquisition
 - The amount of long-term debt related to the fixed asset still outstanding at the date of implementation of this revised accounting system

Since the acquisition of fixed assets is generally financed by a municipality through amounts raised in the tax levy or through bond issues, all or a part of the equity will generally be recorded as contributed capital in an account entitled "Municipal Contributed Capital." Amounts provided through state or federal grants, prospective suppliers, customers or other sources should, where determinable, be recorded in other contributed capital accounts.

11. **Statutory Financial Statements** - The statutory financial statements of Enterprise Fund-- will contain budget comparisons.

Illustrative Journal Entries

Accounting for the activities of the Enterprise Fund is depicted through a series of journal entries in the following pages. In most instances, the journal entries have been arranged in the order in which they would occur during the fiscal year. The entries have been grouped under the following general categories:

- Opening Entries
- Memorandum Entries
- Budgetary Entries
- Expenditures and Other Cash Disbursements:
 - Payroll
 - Vendor Disbursements
 - Appropriation Transfers
 - Interfund Expenses
- Revenue
- Grants
- Construction in Progress
- Fixed Assets
- Other Transactions
- Special Topics
- Year-end Transactions:
 - Adjusting Entries
 - Closing Entries

The journal entries illustrate the entire accounting cycle for one fiscal year, beginning with the opening trial balance, and ending with a closing trial balance, which has been prepared after posting of the journal entries presented in the chapter. Dollar values have been assigned to the entries to assist the reader in following the presentation. The financial statements set forth in Chapter 11 are based on the illustrated journal entries in this chapter, and the other chapters of Section IV of this manual.

The example chosen for an Enterprise Fund reflects the operations of a water department, but the same basic entries and accounting theory are applicable to other Enterprise Funds.

At the beginning of the year, the enterprise has under construction a water treatment plant for which the total authorized project cost is \$5,000,000. The project will be funded by a federal grant which will pay for 75% of the cost, and the balance will be funded through the issue of 20-year serial bonds. As of July 1, the beginning of the year, there had been \$850,000 of costs incurred on the project. Grant reimbursement requests, submitted to the federal government under the terms of the grant, amounted to \$562,500, of which amount there was still \$140,000 receivable from the government at the beginning of the year.

There have been included, in the opening trial balances, memorandum accounts for Projects Authorized, Grants Awarded and Bonds Authorized. As has been noted previously, the use of such accounts is recommended for control purposes. However, such amounts should not be included in the financial reports issued by an enterprise.

Opening Entries

The opening entries record the opening trial balance carried over from the prior year and restore the accounts to the basis of accounting on which they will be maintained during the year. (See Basis of Accounting, Chapter 2.)

1. The trial balance after final adjustment at the close of the prior year-end is brought forward and recorded as the current year's beginning trial balance, including memoranda accounts.

71-1040	Cash, Unrestricted	\$ 211,515	
71-1411	User Charges Receivable, Prior year's	59,231	
71-1441	Enterprise Liens Added to Taxes, Prior Year's	8,077	
71-1461	Due from Federal Government	140,000	
71-1499	Reserve for Estimated Uncollectible Accounts Receivable		11,077
71-1850	Construction in Progress	850,000	
71-1941	STATE AND FEDERAL GRANTS AWARDED (MEMORANDA)	3,327,500	
71-9149	STATE AND FEDERAL GRANTS UNBILLED (MEMORANDA)		3,327,500
71-1951	PROJECT AUTHORIZED (MEMORANDA)	4,150,000	
71-195	PROJECT AUTHORIZED, NOT COMPLETED (MEMORANDA)		4,150,000
71-1980	BONDS AUTHORIZED (MEMORANDA)	1,250,000	
71-1989	BONDS AUTHORIZED, UNISSUED (MEMORANDA)		1,250,000
71-2110	Warrants Payable		54,406
71-2720	Bond Anticipation Notes		450,000
71-3520	Other Contributed Capital		562,500
71-3550	Unreserved Retained Earnings		190,836
		\$9,996,323	\$9,996,323

To record the opening balances in the
Water Enterprise Fund per the trial
balance at the close of the prior year

2. In order to restore the accounting to the proper basis, the "Reserve for Uncollected" accounts, reclassified at the close of the prior year, must be reestablished.

71-3179	Designated for Year-end Adjustment	196,231	
71-1499	Reserved for Estimated Uncollectible Accounts Receivable	11,077	
71-1450	Reserve for Uncollected Enterprise Receivables		67,306
71-1469	Reserve for Uncollected Government Receivables		140,000

To reestablish the "uncollected" accounts

Memorandum Entries

The beginning trial balance included the balance in memoranda accounts established in the prior year to facilitate the control over Authorized Project Costs and Approved State and Federal Grants. The two entries that follow adjust these memoranda accounts for the current year's activities:

- a. The expenditures for the year on the project are recorded:

71-1959	PROJECTS AUTHORIZED - NOT COMPLETED	4,150,000	
71-1951	PROJECTS AUTHORIZED		4,150,000

To record expenditures for the year on the project in the memorandum accounts

- b. The amounts billed on grants during the year on the project are recorded:

71-1949	STATE AND FEDERAL GRANTS UNBILLED	3,052,500	
71-1941	STATE AND FEDERAL GRANTS AWARDED		3,052,500

To record the amounts billed on the grants during the year

Budgetary Entries

The following entries record the annual budget of the Water Enterprise Fund. It is assumed for the purposes of this illustration that the annual budget includes an amount required for the acquisition of fixed assets. In addition, it is estimated that other financing sources will be needed in order to pay for the costs of operations for the coming fiscal year. Such sources are expected from the General Fund.

3. The appropriations for the fiscal year are recorded from the Budget Control Worksheet forms included in Chapter 13.

71-3199	BUDGETARY CONTROL	845,343	
71-2910	APPROPRIATIONS		845,343

To record the budgeted costs for the fiscal year

Subsidiary ledger entry for this journal entry would be:

71-5000	SUBSIDIARY APPROPRIATIONS CONTROLS	845,343	
71-5111	SALARIES AND WAGES, FULL-TIME		531,000
71-5172	UNEMPLOYMENT INSURANCE		9,000

71-5175	HEALTH INSURANCE (EMPLOYER'S PORTION)	20,000
71-523.1	ELECTRICITY	42,000
71-5231	NONENERGY	3,500
71-5240	REPAIR AND MAINTENANCE	7,500
71-5341	COMMUNICATIONS	7,250
71-5411	ENERGY	4,500
71-5430	BUILDING REPAIR	22,500
71-5421	OFFICE SUPPLIES	7,500
71-5480	VEHICULAR	98,000
71-5530	PUBLIC WORKS	35,000
71-5710	IN-STATE TRAVEL	2,750
71-5740	INSURANCE	4,500
71-5870	REPLACEMENT EQUIPMENT	25,000
71-5980	INTEREST	25,343

4. The total amounts of estimated revenues for the fiscal year are recorded.

71-1910	ESTIMATED REVENUE	727,750	
71-3199	BUDGETARY CONTROL		727,750

To record the estimated or budgeted revenues for the fiscal year

Subsidiary ledger entry for this journal entry would be:

71-4130	LIENS AND FORECLOSURES	3,500	
71-4170	PENALTIES AND INTERESTS	1,500	
71-4210	UTILITY USAGE CHARGES	672,750	
71-4240	NONUTILITY USAGE CHARGES	50,000	
71-4000	SUBSIDIARY REVENUE CONTROL		727,750

5. Revenues appropriated from other funds for use in the Enterprise Fund are recorded.

71-1912	ESTIMATED OTHER FINANCING SOURCES CONTROL	117,593	
71-3199	BUDGETARY CONTROL		117,593

To record operating transfers-in

Subsidiary ledger entry for this journal entry would be:

71-4951	TRANSFER FROM GENERAL FUND	117,593	
71-4000	SUBSIDIARY REVENUE CONTROL		117,593

6. The budgetary entries for the capital project being constructed in the Enterprise Fund may be recorded with the annual operating budget or separately. The following entries record the estimated revenues and expenditures related to this project.

71-1910	ESTIMATED REVENUES	3,187,500	
71-3190	BUDGETARY RETAINED EARNINGS	962,500	
71-2910	APPROPRIATIONS		4,150,000

Subsidiary ledger entry for this journal entry would be:

71-4540	FEDERAL GRANTS – RESTRICTED	3,167,500	
71-4000	SUBSIDIARY REVENUE CONTROL		3,187,500
71-5000	SUBSIDIARY EXPENDITURE CONTROL	4,150,000	
71-5820	CAPITAL OUTLAY - BUILDING		3,000,000
71-5850	CAPITAL OUTLAY -ADDITIONAL EQUIPMENT		1,150,000

Expenditures and Other Cash Disbursements

Payroll Expenditures

Accounting for payrolls is complicated by the need to account for the amounts withheld from employees for remittance to state and federal taxing authorities and other agencies. The examples given below reflect the practice, commonly found in Massachusetts municipalities, whereby the payroll warrant is prepared for the gross amount and individual checks are prepared for the net pay of each employee and for the total of the various withholding amounts. The withholding checks are then redeposited into the treasury and reported to the accountant as a cash receipt. All withholdings should continue to be accounted for in this manner. The reporting and recording functions can usually be made simpler if the payrolls, warrants, and receipts reports for enterprises are segregated.

7. The payroll is compiled and reported on the warrant.

71-2920	Expenditure	5,000	
71-1040	Cash, Unrestricted Checking		5,000

To record the payroll expenditures for
the week ending ____ warrant # ____

Subsidiary ledger entries for this journal entry would be:

71-5111	Salaries and Wages, Full-time	5,000	
71-5000	Subsidiary Appropriations Control		5,000

8. The withholdings related to the gross payroll above are reported through the Treasurer's Report of Cash Received.

71-1040	Cash, Unrestricted Checking	1,350	
71-2211	Federal Income Tax Withholdings Payable		800
71-2212	State Income Tax Withholdings Payable		200
71-2220	Retirement Withholdings Payable		250
71-2230	Insurance Withholdings Payable		100

To record receipt of the payroll withholdings,

9. The remittance of amounts withheld to taxing authorities and other agencies is reported through the treasurer's warrant.

71-2211	Federal Income Tax Withholdings Payable	3,400	
71-2212	State income Tax Withholdings Payable	900	
71-2220	Retirement Withholdings Payable	11080	
71-2230	Insurance Withholdings Payable	420	
71-2920	Expenditures	1,250	
71-1040	Cash, Unrestricted Checking		7,050

To record the remittance of payroll withholdings, warrant # (if employer portion of payroll taxes and other fringe benefits are paid by the General Fund, such amounts should be recorded as expense in the Enterprise Fund and be reimbursed to that fund.)

Subsidiary ledger entry for this journal entry would be:

71-5172	Unemployment Insurance	750	
71-5175	Health Insurance (Employer's Portion)	500	
71-5000	Subsidiary Appropriations Controls		1,250

Vendor Disbursements

The following journal entries are provided to record the other expenditures reported on the treasurer's warrant which are not related to payroll.

10. The payment requests are forwarded by the departments and compiled, and the expenditure warrant for purchase of goods and services, as well as other departmental expenses, are prepared.

71-2920	Expenditures	6,000	
71-1040	Cash, Unrestricted Checking		6,000

To record the expenditure charged to appropriations, warrant # _____

Subsidiary ledger entry for this journal entry would be:

71-5211	Electricity	3,000	
71-5240	Repair and Maintenance	2,000	
71-5530	Plumbing Supplies	1,000	
71-5000	Subsidiary Appropriations Control		6,000

Appropriation Transfers

During the fiscal year a situation may develop wherein it becomes necessary to authorize * the transfer of appropriations between departments, use of a part of the municipality's appropriation reserve account, or the use of other available funds. Although some of these transfers may have no net effect on the general ledger, they all should be reflected in the general ledger accounts to provide accounting control and an audit trail.

11. The city council votes to transfer funds from one appropriation account to another.

71-2910	APPROPRIATIONS	2,000	
71-2910	APPROPRIATIONS		2,000

To record approved transfers between
appropriations accounts Council order #

Subsidiary ledger entry for this journal entry would be:

71-5530	PLUMBING SUPPLIES	2,000	
71-5240	REPAIRS AND MAINTENANCE		2,000

- 12A. The city council votes to appropriate available funds from other Special Revenue Funds (Fund Balance - Sale of Real Estate), to fund an appropriation for interest expenditures after the tax rate has been set and approved.

71-3199	BUDGETARY CONTROL	30,000	
71-2910	APPROPRIATIONS		30,000

To record city council appropriation for interest
expenditures and transfer from the other
Special Revenue Fund -Council order # _____

Subsidiary ledger entry for this journal entry would be:

71-5000	SUBSIDIARY APPROPRIATION CONTROL	30,000	
71-5980	Interest		30,000

- 12B. The estimated source of funding for the appropriation is recorded.

71-1912	ESTIMATED OTHER FINANCE SOURCES	30,000	
71-3199	BUDGETARY CONTROL		30,000

To record the estimated financing source

Subsidiary ledger entry for the journal entry would be:

71-4952	TRANSFER FROM SPECIAL REVENUE FUND	30,000	
71-4000	SUBSIDIARY REVENUE CONTROL		30,000

Interfund transactions

Transactions between funds include those where one fund renders a service for another (quasi-external transaction) and those where one fund reimburses another fund for expenditures initially made by it, which were properly applicable to another fund (reimbursable transaction). See Appendix B, "Principles of Accounting," for a more detailed discussion of this type of transaction.

13. The water department's office supplies are purchased by the central purchasing department. Periodically, the water department is issued supplies and is required to pay for them.

71-2920	Expenditures	250	
71-1040	Cash		250

To record the issue of office supplies
from central purchasing and the related payment

Subsidiary ledger entry for this journal entry would be:

71-5421	Office Supplies	250	
71-5000	Subsidiary Appropriations Control		250

14. The recreation department fills two of its vehicles with gasoline at the Water Enterprise's gasoline pumps. This is a reimbursable type of transaction, and would be accounted for in the Enterprise Fund as a reduction of expense.

71-1040	Cash - Unrestricted Checking	50	
71-2920	Expenditures		50

To record the sale of gasoline to an activity
accounted for in the General Fund

Subsidiary ledger entry for this journal entry would be:

71-5000	Subsidiary Appropriation Control	50	
71-5411	Gasoline for Motor Vehicles		50

Revenue

The majority of the revenue in the Water Enterprise Fund, and most other Enterprise Funds, is from usage charges. If the enterprise is involved in a major capital project, there may be substantial revenue from federal and/or state grants as well. Revenue will be recorded during the fiscal year on a cash basis. Year-end adjustments will be made to convert the accounting for revenue to an accrual basis. The accounting for grants is discussed in a separate subheading.

Usage charges

The principal revenue in an Enterprise Fund is the charges for services. Normally, Enterprise Funds should be self-supporting. In order to achieve this objective, the rates being charged should be reviewed periodically to determine their adequacy.

15. The water bills are sent out for the fall, and a commitment warrant, agreeing to the total, is forwarded to the accounting officer.

71-1410	User Charges Receivable, Current Year	200,000	
71-1450	Reserve for Uncollected Enterprise Receivables		200,000
To record the commitment of water user charges for the fall			

16. The total of water bills abated or written off is forwarded to the accounting officer from the enterprise.

71-1450	Reserve for Uncollected Enterprise Receivables	1,000	
71-1410	User Charges Receivable, Current Year		1,000
To record the abatements on water user charges for December			

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

71-1040	Cash, Unrestricted Checking	65,000	
71-1410	User Charges Receivable, Current Year		65,000
To record cash collected on water user charges			

18. The revenue and the reserve for uncollected accounts are adjusted to reflect the cash received on the accounts receivable.

71-1450	Reserve for Uncollected Enterprise Receivables	65,000	
71-1920	Revenue		65,000
To record the revenue from the collections on water user charges			

Subsidiary ledger entry for this journal entry would be:

71-4000	Subsidiary Revenue Controls	65,000	
71-4210	Utility Usage Charges		65,000

19. A refund of a credit balance on a taxpayer's account is reported on an approved treasurer's warrant. The credit balance may have resulted from either an overpayment or an abatement after payment was made.

71-1410	User Charges Receivable, Current Year	20	
71-1040	Cash, Unrestricted Checking		20
To record refund of overpayments collected on water user charges			

20. The revenue and reserve for uncollected accounts are adjusted to reflect the payment of refunds on customer accounts receivable.

71-1920	Revenue	20	
71-1450	Uncollected Enterprise Receivables		20
To record the refund of credit balance accounts			

Subsidiary ledger entries for this journal entry would be:

71-4210	Utility Usage Charges	20	
71-4000	Subsidiary Revenue Control		20

Water Liens

Unpaid water rates may be reclassified to water liens in accordance with Sec 42B, Ch 40, MGL and included with other taxes on the real estate tax bills. The water liens are committed by the assessors. Revenue from water liens is recognized when collected. Even though water liens are billed on real estate bills and collected by collectors, they are revenue to the enterprise.

21. The commitment from the assessors of water liens added to taxes is forwarded to the accounting officer.

71-1440	Utility Liens Added to Taxes - Current Year	8,000	
71-1411	User Charges Receivable - Prior Year		8,000
To record the water liens added to taxes			

22. Cash is collected on water liens and reported through the Treasurer's Report of Cash Received.

71-1040	Cash, Unrestricted Checking	1,000	
71-1440	Utility Liens Added to Taxes - Current Year		900
71-1441	Utility Liens Added to Taxes - Prior Year's		100

To record the collections on water liens

23. The revenue and reserve for uncollected accounts are adjusted to reflect the cash received on water lien accounts receivable.

71-1450	Reserve for Uncollected Enterprises Receivables	1,000	
71-1920	Revenue		1,000

To record the revenue from collections on water liens

Subsidiary ledger entry for this journal entry would be:

71-4000	Subsidiary Revenue Control	1,000	
71-4210	Utility Usage Charges		1,000

24. The assessors send the monthly summary of abatements to the accounting officer which includes water liens abated.

71-1450	Reserve for Uncollected Enterprise Receivables	1,977	
71-1440	Utility Liens Added to Taxes - Current Year		1,305
71-1441	Utility Liens Added to Taxes - Prior Year's		672

To record the abatement of water enterprise liens for June

Tax liens

Unpaid water liens (Sec 42(a) to (i), Ch 40, MGL) can be subject to a tax lien 14 days after a demand notice of delinquency has been issued in accordance with Sec 53, Ch 60, MGL. The lien is taken by the tax collector and collected by the treasurer.

25. The tax collector records the tax lien on properties for delinquent water enterprise liens.

71-1240	Tax Liens Receivable	1,500	
71-1440	Utility Liens Added to Taxes -Current Year		1,000
71-1441	Utility Liens Added to Taxes -Prior Year's		500

To record the taking of water liens to tax liens

26. The reserve for uncollected accounts are adjusted to reflect the amount of water liens added to taxes, recorded as a tax lien.

71-1450	Reserve for Uncollected Enterprise Receivables	1,500	
71-1250	Reserve for Uncollected Tax Liens		1,500

To adjust the corresponding uncollecteds for transfer of water enterprise liens to tax liens

27. Payments are received on tax liens and reported on the Treasurer's Report of Cash Received.

71-1040	Cash, Unrestricted Checking	450	
71-1240	Tax Liens Receivable		450

To record collections of water liens in tax liens

28. The revenue and the reserve for uncollected account are adjusted to reflect the cash received on tax title accounts receivable.

71-1250	Reserve for Uncollected Tax Liens	450	
71-1920	Revenue		450

To record the revenue from collection
of water liens in tax liens

Subsidiary ledger entry for this journal entry would be:

71-4000	Subsidiary Revenue Control	450	
71-4134	Tax Liens Redeemed		450

29. Occasionally a water lien is transferred to tax liens and then, subsequently, it is found that the original billing was in error and must be abated. The entry to record the abatement follows.

71-1250	Reserve for Uncollected Tax Liens	50	
71-1240	Tax Liens Receivable		50

To record the abatement of a water
lien in tax lien

(An identical entry would be made for tax liens which are disclaimed, except the explanation would indicate "disclaimed" instead of "abated.")

30. If the treasurer, or other custodian of tax liens, sells land of low value that is in tax lien as set forth in Sec 79, Ch 60, MGL, then a priority for recognizing revenue is established. First, the proceeds are applied to delinquent real estate taxes in tax lien, then to other taxes in tax lien, then to enterprise liens in tax liens (apportioned by their relative magnitude), then to interest and charges, and, finally, if any proceeds remain, to a liability in the General Fund called 'excess from sales of lands of low value.' Provided that there are enough proceeds from the sale to meet the levels through enterprise liens, then the entries would be identical to the redemption entries #24 and 25, above. The entry description would clearly indicate the proceeds derived from sales of lands of low value.

Tax Foreclosures

Tax liens may be subject to a foreclosure if they are not paid according to Sec 50, Ch 60, MGL. Foreclosure proceedings are processed by the treasurer or other tax lien custodian. In the Enterprise Funds, the accounting for foreclosure transactions is limited to the foreclosure itself. Once the property has been foreclosed on it becomes an asset of the General Fund so that subsequent sales, or other transactions of that particular property, are reflected in the General Fund. The accounting for foreclosures is illustrated in the two following entries:

31. The tax lien custodian forecloses on a tax lien property that had a water lien within the tax lien.

71-2922	Other Financing Uses	100	
71-1240	Tax Liens Receivable		100

To record the foreclosure on a tax lien

Subsidiary ledger entries for this journal entry would be:

71-5671	Transfer to the General Fund	100	
71-5000	Subsidiary Appropriation Control		100

32. The revenue and the reserve for uncollected accounts are adjusted to reflect the cash received on tax lien accounts receivable.

71-1250	Reserve for Uncollected Tax Liens	100	
71-1920	Revenue		100

To record the revenue from
foreclosure of tax liens

Subsidiary ledger entry for this journal entry would be:

71-4000	Subsidiary Revenue Control	100	
71-4238	Tax Foreclosures		100

Other Revenue

Other revenue includes cash receipts from sources that are not normally billed and do not, therefore, become formal receivables of the enterprise. Examples of these are the non-utility usage charges, such as rental of spare office or garage space, sale of pipe layouts to contractors, or sale of scrap metal.

33. The water department sells some scrap pipe to a junk dealer and the proceeds are reported through the Treasurer's Report of Cash Received.

71-1040	Cash, Unrestricted Checking	75	
71-1920	Revenue		75

Subsidiary ledger entry for this journal entry would be:

71-4000	Subsidiary Revenue Control	75	
71-4825	Sale of Scrap		75

Grants

Intergovernmental Grants

A description of the various types of grants and the accounting for grants under this revised system is set forth in Chapter 15, "Special Revenue Funds."

34. The municipality makes expenditures related to the construction of the water treatment plant. Such expenditures qualify for a 75% reimbursement from the federal government under the terms of the federal grant.

71-2920	Expenditures	300,000	
71-2130	Contracts Payable, Retained Percentage		30,000
71-1040	Cash, Unrestricted Checking		270,000

To record expenditure on the capital project

Subsidiary ledger entry for this journal entry would be:

71-5822	Capital Outlays - Building	300,000	
71-5000	Subsidiary Appropriations Control		300,000

35. A general government requisition is prepared requesting draw-down of federal grant funds related to the construction project. Amount requested represents 75% of qualifying expenditures.

71-1461	Due from Federal Government	225,000	
71-1469	Reserve for Uncollected Governmental Receivables		225,000

To record the requisition of federal grant funds to reimburse capital projects expenditure

36. Collections on the receivable from the federal government are made and are reported through the Treasurer's Report of Cash Received.

71-1040	Cash, Unrestricted Checking	225,000	
71-1461	Due from Federal Government		225,000

To record the collections on receivables from the federal government

37. The revenue and the reserve for uncollected accounts are adjusted to reflect the cash received on the government receivable.

71-1469	Reserve for Uncollected Governmental Receivables	225,000	
71-1920	Revenue		225,000

To record the revenue from reimbursements by the federal government

Subsidiary ledger entry for this journal entry would be:

71-4000	Subsidiary Revenue Control	225,000	
71-4540	Restricted Federal Revenues - Direct		225,000

Construction and Financing of Capital Projects

Construction of the water treatment plant which was started in the prior fiscal year was completed during the present year. The expenditures made during the year for the project will be classified to expense account #5880, "Construction in Progress." At year-end, adjustments will be made to reclassify such amounts to the fixed asset accounts. The events illustrated in the following journal entries include temporary borrowing taken to finance the project, the payment of construction invoices, the sale of bonds authorized in connection with the project funding and the repayment of the temporary loans. Entries made for the billing made to the government for grant reimbursement, and the subsequent payment received from the government have been presented previously in entries #35 and #36.

38. Temporary loans are taken in anticipation of grant reimbursement in order to provide financing for the project.

71-1040	Cash	200,000	
71-2730	Reimbursement Anticipation Notes Payable		200,000

To record the issuance of temporary
loans in anticipation of grant reimbursement

39. Construction invoices for several months are paid, less retainage authorized to be withheld.

71-2920	Expenditures	375,000	
71-2130	Contract Payable, Retained Percentage		37,500
71-1040	Cash		337,500

To record payment of construction
invoices on warrant # ____

Subsidiary ledger entry for this journal entry would be:

71-5891	Construction in Progress	375,000	
71-5000	Subsidiary Appropriations Control		375,000

40. The bonds authorized for funding a portion of the project are sold at par.

71-1040	Cash	1,250,000	
71-2840	Bonds payable, outside the debt limit		1,250,000

To record the cash proceeds received
from the sale of bonds

41. At- the same time that the entry is made to record the sale of the bonds, an entry would be made to reverse related amounts previously recorded in the bond authorization memorandum accounts.

71-1989	BONDS AUTHORIZED, UNISSUED	1,250,000	
71-1980	BONDS AUTHORIZED		1,250,000

To reverse, from the bond authorization memoranda
accounts, the amount of bonds issued in connection with
the water treatment plant

42. Temporary loans taken in anticipation of grant reimbursement are repaid upon the receipt of grant funds.

71-2730	Reimbursement Anticipation Notes Payable	200,000	
71-2920	Expenditures	10,000	
71-1040	Cash		210,000

To record repayment of notes payable on warrant # ____

Subsidiary ledger entry for this journal entry would be:

71-5925	Interest on Notes	10,000	
71-5000	Subsidiary Appropriation Control		10,000

Fixed Assets

Fixed assets used by a municipality in enterprise activities should be accounted for in accordance with the principles described previously in this chapter. Amounts included in the operating budget for capital outlay, other than for capital projects discussed above, will, when expended, be charged to accounts #830 through 870. When the assets acquired are significant, the cost of such assets will be reclassified to the fixed asset accounts at the end of the fiscal year. Year-end adjusting entries 71 through 74 are also related to fixed assets and should be reviewed.

43. Two new pick-up trucks are purchased in replacement of two old vehicles.

71-2920	Expenditures	25,000	
71-1040	Cash		25,000

To record the expenditures for vehicles on warrant # ____

Subsidiary ledger entry for this journal entry would be:

71-5670	Replacement Equipment	25,000	
71-5000	Subsidiary Appropriation Control		25,000

44. Through research of prior year records, it is determined that the buildings in which the water department conducts its activities were constructed by the municipality for a cost of \$250,000 fifteen years ago. Such amounts should be capitalized as a fixed asset recorded at its net depreciated value, and written off over the remaining useful life of the building, which is estimated to be 10 years.

71-1621	Building	100,000	
71-3510	Municipal Contributed Capital		100,000

To record as a fixed asset the net depreciated value of Water Department buildings.
(Original cost of \$250,000, less allowable depreciation of \$150,000.)

Other Transactions

Loan authorization and issuance

Most capital projects and purchases of large equipment of an enterprise are funded, either totally or in part, by long-term borrowing in the form of issuance of serial bonds. These serial issues must be approved by either town meeting vote or by the city council. The authorization is recorded when voted and reduced by either the issuance of bonds or the rescission of the authorization.

Investment of excess cash

Due to the fluctuation in cash flow of the enterprise during the year, there may be excess cash generated which should be invested to benefit the enterprise. Certificates of deposit, securities, repurchase agreements, and treasury bills are among the vehicles in which the funds may be invested. The expenditures to purchase these investments must be made through approved treasury warrants, and the maturities and the interest earned on them must be reported through the Treasurer's Report on Cash Received.

45. An investment of excess funds is made in securities repurchase agreements .

71-1110	Securities Repurchase Agreement	200,000	
71-1040	Cash, Unrestricted Checking		200,000

To record the investment of excess cash

46. The security repurchase agreements are sold.

71-1040	Cash, Unrestricted Checking	203,000	
71-1110	Securities Repurchase Agreement		200,000
71-11920	Revenue		3,000

To record the sale of security repurchase agreements

Subsidiary ledger entry for this journal entry would be:

71-4000	Subsidiary Revenue Control	3,000	
71-4831	Interest on Investment		3,000

Special Topics

Operating transfers

Operating transfers are legally authorized transfers between funds. These are generally funds which are raised in one fund, but which are transferred to, and expended in, a second fund. Transfers are classified as an "other financing use" in the transferring fund, and as an "other financing source" in the receiving fund.

47. Funds are transferred from the General Fund to be used for maturing debt and interest.

71-1040	Cash, Unrestricted Checking	55,343	
71-1922	Other Financing Sources		55,343

Subsidiary ledger entry for this journal entry would be:

71-4000	Subsidiary Revenue Control	55,343	
71-4671	Transfers from General Fund		55,343

Miscellaneous entries

The following entries are provided with minimal explanation in order to allow users of this manual to duplicate, through "T" accounts, the balances used in the closing entries.

48. Additional commitment of water user charges for collection.

71-1410	User Charges Receivable, Current Year	610,000	
71-1450	Reserve for Uncollected Enterprise Receivables		610,000

To record the commitment of water user
charges for balance of year

49. Additional water user charges are abated.

71-1450	Reserve for Uncollected Enterprise Receivables	3,750	
71-1410	User Charges Receivable, Current Year		3,750

To record abatements of water rates for balance of year

50. Additional cash collections on water bills

71- 1040	Cash, Unrestricted Checking	703,500	
71-1410	User Charges Receivable, Current Year		670,044
71-1411	User Charges Receivable, Prior Year's		33,456

To record cash collection on water user
charges for balance of year

51. Revenue related to additional cash collection on water user charges.

71-1450	Reserve for Uncollected Enterprise Receivables	703,500	
71-1920	Revenue		703,500

To record revenue from collection of
water user charges for balance of year

52. Additional water enterprise liens added to taxes.

71-1440	Utility Liens Added to Taxes, Current Year	4,500	
71-1410	User Charges Receivable, Current Year		4,500

To record water enterprise liens
added to taxes for balance of year

53. Additional cash collections on water enterprise liens added to taxes.

71-1040	Cash, Unrestricted Checking	3,175	
71-1440	Utility Liens Added to Taxes, Current Year		2,250
71-1441	Utility Liens Added to Taxes, Prior Year		925

To record cash collected on water enterprise
liens added to taxes for balance of year

54. Revenue related to additional cash collections on water liens added to taxes.

71-1450	Reserve for Uncollecte--" Enterprise Receivables	3,175	
71-1920	Revenue		3,175

To record revenue from collection of water
enterprise liens added to taxes for balance of" year

55. Additional tax liens arising from delinquent water liens are recorded.

71-1240	Tax Liens Receivable	2,700	
71-1440	Utility Liens Added to Taxes, Current Year		1,650
71-1441	Utility Liens Added to Taxes, Prior Year		1,050

To record additional tax liens recorded
for the balance of the year

56. The uncollectible accounts are agreed to the receivables.

71-1450	Reserve for Uncollected Enterprise Receivables	2,700	
71-1250	Reserve for Uncollected Tax Liens		2,700

To agree the uncollected accounts to
the related receivable

57. Additional cash collections on tax liens.

71-1040	Cash, Unrestricted Checking	600	
71-1240	Tax Liens Receivable		600

To record cash collected on tax liens
for the balance of the year

58. Revenue related to additional cash collection on tax title.

71-1250	Reserve for Uncollected Tax Liens	600	
71-1920	Revenue		600

To record revenue from collection
of tax liens for balance of year

59. Additional requisition to federal government for grant reimbursement.

71-1461	Due from Federal Government	2,962,500	
71-1469	Reserve for Uncollected Govern- mental Receivables		2,962,500

To record grant reimbursement
recuest for balance of year

60. Additional cash collections on government receivables.

71-1040	Cash	2,827,500	
71-1461	Due from Federal Government		2,827,500

To record cash collected on government
grant for balance of year

61. Revenue related to additional cash collection on government grant.

71-1469	Reserve for Uncollected Governmental Receivables	2,827,500	
71-1920	Revenue		2,827,500

To record revenue from collection of
government grant for balance of year

62. Additional temporary loans.

71-1040	Cash	200,000	
71-2730	Reimbursement Anticipation Notes	200,000	

To record additional temporary loans in
anticipation of grant reimbursement

63. Additional payments of operating expenditures, other than payroll.

71-2110	Warrants Payable	54,408	
71-2920	Expenditures	272,650	
71-1040	cash		327,058

To record payment of operating
expenditures for the balance of the year

64. Additional payment of payroll expenditures, and deposit of related payroll withholdings.

71-2920	Expenditures	542,400	
71-1040	Cash		542,400
71-1040	Cash	148,600	
71-2211	Federal Income Tax Withholdings Payable		84,520
71-2212	State Income Tax Withholdings Payable		21,100
71-2220	Retirement Withholdings Payable		32,580
71-2230	Insurance Withholdings Payable		10,400

To record payroll expense for the balance
of the year, and deposit of related withholdings

65. Additional payment of withholdings.

71-2211	Federal Income Tax Withholdings Payable	78,800	
71-2212	State Income Tax Withholdings Payable	19,700	
71-2220	Retirement Withholdings Payable	30,700	
71-2230	Insurance Withholdings Payable	9,600	
71-1040	Cash		138,800

To record additional payment of employee
withholdings for balance of year

66. Additional payments on construction of capital project.

71-2920	Expenditures	3,475,000	
71-2130	Contracts Payable, Retained Percentage		347,500
71-1040	Cash		3,127 500

To record additional payments on construction of capital project

67. Payment of contract retainage.

71-2130	Contract Payable, Retained Percentage	415,000	
71-1040	Cash		415,000

To pay contract retainage

68. Repayment of bond anticipation notes.

71-2720	Bond Anticipation Notes	450,000	
71-2920	Expenditures	15,000	
71-1040	Cash		465,000

To repay bond anticipation notes payable

Year-End Adjustments

69. At the end of the fiscal year, the accounting for revenues in the Enterprise Fund must be converted to the accrual basis. This is accomplished by reclassifying the total balances in the "uncollected accounts" to revenue, net of a reasonable amount for the estimated uncollectible accounts, which will be recorded in account #1499, Allowance for Uncollectible Receivables. The calculation of the estimated uncollectible portion of each type of receivable should be based on a given municipality's actual experience. In this example, the allowance includes 5% of the water rates receivable, 100% of water liens and 100% of tax liens. No allowance was considered necessary for the governmental receivables.

71-1250	Reserve for Uncollected Tax Liens	3,000	
71-1450	Reserve for Uncollected Enterprise Receivables	93,726	
71-1469	Reserve for Uncollected Governmental Receivables	275,000	
71-1499	Allowance for Uncollectible Receivables		17,500
71-1920	Revenue		354,226

To adjust the receivables to the accrual method

Subsidiary ledger entry for this journal entry would be:

71-4000	Subsidiary Revenue Control	354,326	
71-4210	Utility Usage Charges		79,326
71-4540	Restricted Federal Revenues - Direct		275,000

70. The revenue for the current fiscal year is adjusted for that portion which was accrued in the prior year.

71-1920	Revenue	196,231	
71-3179	Designated for Year-end Adjustments		196,231

To record the adjustment of revenue
for prior year accruals

Subsidiary ledger entry for this journal entry would be:

71-4210	Utility Usage Charges	56,231	
71-4540	Restricted Federal Grants – Direct	140,000	
71-4000	Subsidiary Revenue Control		196 231

71. The expenditures for the year for the purchase of large capital items are capitalized.

71-1840	Machinery and Equipment	25,000	
71-2920	Expenditures		25,000

To capitalize the large capital items purchased.

Subsidiary ledger entry for the journal entry would be:

71-5000	Subsidiary Appropriations Control	25,000	
71-5894	Transferred to Fixed Assets Machinery and Equipment		25,000

72. The expenditures for the year on the completed capital project are capitalized.

71-1835	Water Parification and Distribution Facility	5,000,000	
71-1850	Construction Progress		850 000
71-2920	Expenditures		4 150,000

To capitalize the completed capital project

Subsidiary ledger entry for this journal entry would be:

71-5000	Subsidiary Appropriation Control	4,150,000	
71-5893	Transferred to Fixed Assets –Plant		4,150,000

73. The revenue recognized from grant reimbursements for the year should be reclassified to 'Contributed Capital' since such funds are not part of the operation of the enterprise.

71-1920	Revenue	3,187,500	
71-3520	Other Contributed Capital		3, 187,500

To reclassify grant revenue to contributed capital

Subsidiary ledger entry for this journal entry would be:

71-4540	Restricted Federal Grants -Direct	3,187,500	
71-4000	Subsidiary Revenue Control		3,187,500

74. The depreciation of fixed assets for the current fiscal year is calculated and recorded.

71-2920	Expenditures	92,500	
71-1829	Accumulated Depreciation - Buildings		10,000
71-1639	Accumulated Depreciation - Plant		80,000
71-1849	Accumulated Depreciation - Machinery and Equipment		2,500

To record the depreciation of fixed assets for the year

Subsidiary ledger entry for this journal entry would be:

71-5829	Depreciation on Buildings	10,000	
71-5839	Depreciation on Plant	80,000	
71-5849	Deoreciation on Machinery and Equipment	2,500	
71-5000	Subsidiary Appropriation Control		92,500

75. The local governmental unit budgets the estimated enterprise deficit (or surplus) as part of its budget process. The actual deficit (or surplus) incurred (or earned) by the enterprise will then be reimbursed by (or to) the General Fund. This deficit (or surplus) will be computed on the same basis as the local governmental unit determines its budget.

71-1610	Due from General Fund	75,670	
71-1922	Other Financing Sources		75,670

To record the reimbursement due from the General Fund for the cash basis deficit

Closing Entries

76. The budget entry for the fiscal year is reversed.

71-2910	APPROPRIATIONS	875,343	
71-1910	ESTIMATED REVENUE		727,750
71-1912	ESTIMATED OTHER FINANCING SOURCES		147,593

To close the budget accounts

77. The budget entry for the capital project is reversed.

71-2910	APPROPRIATIONS	4,150,000	
71-1910	ESTIMATED REVENUE		3,187,500
71-3190	BUDGETARY RETAINED EARNINGS		962,500

To close the budget accounts for the capital project

78. The revenues, other financing sources, expenditures and other financing uses are closed out to fund balance.

71-1920	Revenue	799,875	
71-1922	Other Financing Sources	131,013	
71-3550	Unreserved Retained Earnings	14,212	
71-2920	Expenditures		945,000
71-2922	Other Financing Uses		100

To close the revenues and expenditure accounts

Closing Trial Balance

71-1040	Cash-Unrestricted Checking	19,580	
71-1240	Tax Liens Receivable	3,000	
71-1410	User Charges Receivable, Current Year	65,726	
71-1411	User Charges Receivable, Prior Year's	17,775	
71-1440	Enterprise Liens Added to Taxes, Current Year	5,395	
71-1441	Enterprise Liens Added to Taxes, Prior Year's	4,830	
71-1461	Due from Federal Government	275,000	
71-1499	Reserve for Estimated Uncollectible Receivables		17,500
71-1610	Due from General Fund	75,670	
71-1821	Buildings	100,000	
71-1829	Accumulated Depreciation - Buildings		10,000
71-1835	Water Purification and Distribution Facility	5,000,000	
71-1839	Accumulated Depreciation -Plant		80,000
71-1840	Machinery and Equipment	25,000	
71-1849	Accumulated Depreciation - Machinery and Equipment		2,500
71-1941	STATE AND FEDERAL GRANTS AWARDED (MEMORANDUM)	275,000	
71-1949	STATE AND FEDERAL GRANTS UNBILLED (MEMORANDUM)		275,000
71-2211	Federal Income Tax Withholdings Payable		3,120
71-2212	State Income Tax Withholdings Payable		700
71-2220	Retirement Withholdings Payable		1,050
71-2230	Insurance Withholdings Payable		480
71-2730	Reimbursement Anticipation Notes Payable		200,000
71-2850	Bonds Payable, Outside Debt Limit-Water		1,250,000
71-3510	Municipal Contributed Capital		100,000
71-3520	Other Contributed Capital		3,750,000
71-3550	Unreserved Retained Earnings		176,626
		\$5,866,976	\$5,866,976