

Enterprise Fund Policy

PURPOSE

Massachusetts General Law provides for municipalities to establish – for accounting purposes - a separate fund(s) classified as Enterprise Funds to record the revenues and expenditures of municipal operations that deliver services on a business-like basis; that is, the users of the service are charged fees intended to cover most if not all of the costs of delivering the service.

The purpose of this policy is to establish principles that govern the accounting and financing of operations that deliver these kinds of services.

APPLICABILITY

This policy is applicable to the Town Administrator for estimating annual enterprise fund revenue and recommending annual user charges; the Finance Committee with responsibility for recommending annual enterprise fund budgets; the Select Board with responsibility for setting user charges; and the Capital Improvement Committee with responsibility for recommending enterprise fund capital projects Committee.

DEFINITIONS

Direct costs – those expenses that comprise the recommended budget for the enterprise and are voted as appropriations by town meeting to finance the operations of the enterprise. These expenses are accounted for in the enterprise fund.

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.

Fund – a separate accounting entity used to segregate the revenues and expenditures of a single municipal activity or multiple activities, record the annual financial results of that operation, segregate any resulting surplus and facilitate financial reporting of the Fund's assets and liabilities.

General Fund - the primary fund used by a government entity. This fund is used to record all revenues and expenditures that are not associated with special-purpose funds, e.g., enterprise funds and grant funds. The activities being paid for through the general fund constitute the core administrative and operational tasks of a municipality.

Indirect costs – those expenses that are part of the annual operating budget accounted for in the General Fund, a portion of which can be identified as supporting the operations of an enterprise.

Retained Earnings - any operating surplus (actual revenues in excess of estimates and appropriations in excess of expenses) is retained in the enterprise fund rather than closed to the General Fund at fiscal year-end. Surplus of an enterprise certified by the Massachusetts Department of Revenue, Division of Local Services as available is called "retained earnings". Use of retained earnings requires appropriation by town meeting.

Commented [RA1]: Do I have these roles described correctly?

POLICY

The town will adhere to the following policies regarding Enterprise Funds:

- For any service delivered on a business-like basis, the Town shall consider establishing an enterprise fund in order to effect the following:
 - To clearly identify the total cost of delivering the service – direct, indirect and capital - and the source(s) of funding of the service.
 - To make readily accessible important financial and management information for rate setting purposes and financial reporting.
 - To provide a vehicle for the segregation of any surplus at fiscal year-end generated by the results of operations and reserve that surplus for future use in support of the operation, subject to appropriation by town meeting.
- The annual budget of any enterprise shall be included in the Finance Committee’s annual recommended budget as described in the Town’s Annual Budget Process policy.
- Capital requests of any enterprise for the ensuing fiscal year and future years shall be included in the Capital Improvement Committee’s recommended annual Capital Improvement Plan as described in the Town’s Capital Planning policy.
- User charges shall be set at a level to cover all costs, direct and indirect and capital-related.
- The enterprise’s share of the Town’s annual cost of financing its Other Post Employment Benefits (OPEB) liability shall be included in the total costs to be financed by user charges as described in the Town’s Other Post Employment Benefits policy.
- User charges shall be reviewed annually and presented to the Select Board by the Town Administrator or his/her designee for review. If rate changes are recommended, the Select Board, pursuant to its fee-setting duties, shall act on such recommendations. If new rates are approved they shall take effect on MM/DD.
- A reserve of retained earnings shall be maintained at a level described in the Town’s Financial Reserves policy, including an amount to cover emergency circumstances.
- Mid-year adjustments of rates will be sought only under extraordinary circumstances in response to emergencies that cannot be accommodated through an appropriation of available retained earnings.

Commented [RA2]: Steve,
Typically, what is this date?

PROCEDURES

Determination of Indirect Costs – Indirect costs shall be determined annually to serve two purposes:

- As part of the budget process, to identify the amount of enterprise fund revenue proposed to be transferred to the General Fund to finance those costs to be incurred by the General Fund in support of the operations of the enterprise.
- To include as a component of total annual cost of the enterprise – in addition to direct and capital costs – for the purpose of determining rates that will result in the enterprise being self-supporting; that is total estimated revenue equal to total costs.

Indirect costs shall include but not be limited to the following:

- Benefits for active and retired employees, including insurances, Medicare tax, unemployment, and workers' compensation
- Pension costs – the Town's share of its annual pension assessment attributable to employees of the enterprise
- Vehicle insurance
- Property and liability insurance covering buildings, equipment and operations of the enterprise
- Administrative costs – payroll, accounting, accounts payable, purchasing, treasury and collection services, human resources and other general fund staff providing assistance the enterprise (e.g., Director of Public Works, Town **Engineer**)
- Audit services
- Actuarial services
- Legal services
- Debt service, if not included as a direct cost in the enterprise budget as adopted by town meeting
- Information technology expenses
- Other costs that may be considered and agreed to, such as: printing, postage, materials, supplies, software, infrastructure, and fuel

The Town Administrator or his/her designee shall develop in writing methodologies for identifying and calculating indirect costs, and annually shall coordinate and oversee their calculation culminating in a written report. The date for completion of the report shall be integrated into the annual budget calendar such that it provides timely information needed in the development of the Town Administrator's annual revenue estimates.

REFERENCES

M.G.L. c. 44, § 53F½

Massachusetts Department of Revenue, Division of Local Services: [Enterprise Fund G.L. c. 44, § 53F½ Manual](#)

Town of Montague – [Annual Budget Process](#) policy

Commented [RA3]: Steve, do these titles exist in Montague?

Town of Montague– Financial Reserves policy

Town of Montague – Capital Planning policy

Town of Montague – Other Post Employment Benefits policy

ADOPTED BY:

DATE ADOPTED:

