



SECTION 5— Budget Overview—Enterprise Funds

Enterprise Fund Overview

What is an Enterprise Fund

An enterprise fund establishes a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. Under enterprise accounting, the revenues and expenditures of the service are segregated into a separate fund with its own financial statements, rather than commingled with the revenues and expenses of all other governmental activities. Financial transactions are reported using standards similar to private sector accounting. Revenues are recognized when earned and expenses are recognized when incurred, under a full accrual basis of accounting. An enterprise fund provides management and taxpayers with information to measure performance, analyze the impact of financial decisions, determine the costs of providing a service and identify any subsidy from the general fund in providing a service.

Enterprise accounting allows a community to demonstrate to the public the portion of total costs of a service that is recovered through user charges and the portion that is subsidized by the tax levy or other available funds, if any. A community may choose to recover total service costs through user charges, but it is not required.

History

The enterprise fund statute, MGL Chapter 44 ss33F ½ (formerly Chapter 41 ss39K), was enacted in 1986. Before that time, communities used special revenue funds authorized under various general laws or special acts in order 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 expenditures or fixed assets of the service. The purpose of the enterprise fund statute was to give communities the flexibility to account separately for all financial activities associated with a broader range of municipal services.

Basis of Accounting

Proprietary fund revenues and expenses should be recognized on the accrual basis. Revenues should be recognized in the accounting period in which they are earned and become measurable; expense should be recognized in the period incurred, if measurable.

For the entire MGL on Enterprise Funds visit the Massachusetts Department of Revenue website:
<http://www.mass.gov/Ador/docs/dls/publ/misc/EnterpriseFundManual.pdf>

**Five Year Financial Forecast
Water Sewer Enterprise Funds**

Desc		FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
		Projected					
Sewer Rates	Residential	3.89	4.24	4.24	4.41	4.59	4.77
	Non-Residential < 25,000 cu ft	5.89	6.42	6.42	6.68	6.94	7.22
	Non-Residential > 25,000 cu ft	7.55	8.23	8.23	8.56	8.90	9.26

SEWER REVENUE

60001 4171	Penalties & Interest Sewer	56,754	43,167	43,167	44,894	46,689	48,557
60001 4200	Sewer Rates Revenue	5,810,198	6,865,646	6,978,449	7,257,587	7,547,890	7,849,806
60001 4201	Sewer Liens Revenue						
60001 4220	Sewer Backflow Tests	29,440	20,000	20,000	20,800	21,632	22,497
60001 4840	Misc Revenue Sewer						

SEWER RATES

5,896,392	6,928,813	7,041,616	7,323,281	7,616,212	7,920,860
-----------	-----------	-----------	-----------	-----------	-----------

60001 4900	OFS	52,500	-				
4900	SESD Trans In	500,000	600,000				
SEWER OFS/Trans In		552,500	600,000	-	-	-	-

TOTAL SEWER REVENUE

6,448,892	7,528,813
-----------	-----------

SEWER EXPENSES

Admin	839,652	779,345	780,232	811,441	843,899	877,655
SESD Assessment	5,492,155	5,515,899	5,603,209	5,827,337	6,060,431	6,302,848
Subtotal	6,331,807	6,295,244	6,383,441	6,638,779	6,904,330	7,180,503

Indirect Costs	753,162	633,569	658,175	684,502	711,882	740,357
Total	7,084,969	6,928,813	7,041,616	7,323,281	7,616,212	7,920,860

Encumbrances

TOTAL SEWER EXPENSES

7,084,969	6,928,813
-----------	-----------

****SESD FUND BALANCE AS OF 5/15/07 - \$175,775**

Desc		FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Water Rates	Residential	2.22	2.18	2.18	2.27	2.36	2.45
	Non-Residential	3.02	2.96	2.96	3.08	3.20	3.33

WATER REVENUE

61001 4172	Penalties & Interest Water	37,300	45,000	45,000	46,800	48,672	50,619
61001 4210	Water Rates Revenue	4,040,916	3,922,442	4,145,196	4,311,004	4,483,444	4,662,782
61001 4211	Water Liens Revenue						
61001 4815	Sale Of Water Meters	6,502	6,000	6,000	6,240	6,490	6,749
61001 4840	Misc Revenue Water	5,724	4,000	4,000	4,160	4,326	4,499

WATER RATES

4,090,442	3,977,442	4,200,196	4,368,204	4,542,932	4,724,649
-----------	-----------	-----------	-----------	-----------	-----------

61001 4900	OFS						
	Interfund Trans In	32,500					
	GASB 34 ADJ						
WATER OFS/Trans in		32,500	-	-	-	-	-

TOTAL WATER REVENUE

4,122,942	3,977,442	4,200,196	4,368,204	4,542,932	4,724,649
-----------	-----------	-----------	-----------	-----------	-----------

WATER EXPENSES

Admin	869,902	912,968	1,074,844	1,117,838	1,162,551	1,209,053
Debt Service				-	-	-
Short Term Debt	123,560	151,604	401,281	417,332	434,026	451,387

**Five Year Financial Forecast
Water Sewer Enterprise Funds**

SBWSB Assessment	2,023,668	2,081,364	2,143,805	2,229,557	2,318,739	2,411,489
Reserve Fund		269,745				
Subtotal	3,017,130	3,415,681	3,619,930	3,764,727	3,915,316	4,071,929
Indirect Costs	753,162	561,761	580,266	603,477	627,616	652,720
Total	3,770,292	3,977,442	4,200,196	4,368,204	4,542,932	4,724,649
Encumbrances						
TOTAL WATER EXPENSES	3,770,292	3,977,442	4,200,196	4,368,204	4,542,932	4,724,649

**BUREAU OF ACCOUNTS
SCHEDULE A-2
ENTERPRISE FUNDS**

**SALEM
SEWER ENTERPRISE FUND**

1. Enterprise Revenues & Available Funds

	(a) FY07 Budgeted Receipts	(b) FY08 Estimated Receipts
User Charges	6,865,646	6,980,216
Connection Fees		
Other Departmental Revenue	63,167	63,167
Investment Income		
Intergovernmental-SESD		
Total Revenues	<u>6,928,813</u>	<u>7,043,383</u>
Retained Earnings Appropriated		
Other Enterprise Available Funds	0	0
Total Revenue & Available Funds	<u>6,928,813</u>	<u>7,043,383</u>
		To Recap Part IIIB, line 3

2. Total Costs Appropriated

a. Costs appropriated in enterprise fund

Salary & Wages	331,768	388,207
Expenses	422,577	367,325
Out-of-state travel	25,000	
Capital outlay	0	25,000
Reserve Fund		
Other (SESD assessment)	5,515,899	5,603,209
Total costs appropriated in enterprise fund	<u>6,295,244</u>	<u>6,383,741</u>
Total costs appropriated in the general fund	<u>633,569</u>	<u>659,642</u>
Total Costs	<u>6,928,813</u>	<u>7,043,383</u>

3. Calculation of General Fund Subsidy

Revenue & available funds	6,928,813	7,043,383
less: Total costs	6,928,813	7,043,383
less: Prior year deficit		
(Negative represents general fund subsidy)	<u>0</u>	<u>0</u>

4. Sources of Funding for Costs Appropriated in the Enterprise Fund

a. Revenue & available funds	6,928,813	7,043,383
b. Taxation		
c. Free Cash		
d. Non-Enterprise available funds		
Total Sources of Funding for Costs Appropriated in Enterprise Fund	<u>6,928,813</u>	<u>7,043,383</u>

**BUREAU OF ACCOUNTS
SCHEDULE A-2
ENTERPRISE FUNDS**

**SALEM
WATER ENTERPRISE FUND**

1. Enterprise Revenues & Available Funds

	(a) FY07 Budgeted Receipts	(b) FY08 Estimated Receipts
User Charges	3,922,442	4,145,196
Connection Fees		
Other Departmental Revenue	55,000	55,000
Investment Income		
Total Revenues	<u>3,977,442</u>	<u>4,200,196</u>
Retained Earnings Appropriated**		
Other Enterprise Available Funds		
Total Revenue & Available Funds	<u>3,977,442</u>	<u>4,200,196</u>
	To Recap Part IIIB, line 3	

Schedule A-2

2. Total Costs Appropriated

a. Costs appropriated in enterprise fund

Salary & Wages	335,368	400,607
Expenses	577,600	649,237
Out-of-state travel		
Capital outlay	0	25,000
Reserve Fund	269,745	
Other (SBWB assessment)	2,081,364	2,143,805
Other (Debt Service)	151,604	401,281
SESD (11%)		
Total costs appropriated in enterprise fund	<u>3,415,681</u>	<u>3,619,930</u>

Total costs appropriated in the general fund	<u>561,761</u>	<u>580,266</u>
-----------------------------------------------------	----------------	----------------

Total Costs	<u>3,977,442</u>	<u>4,200,196</u>
--------------------	------------------	------------------

3. Calculation of General Fund Subsidy

Revenue & available funds	3,977,442	4,200,196
less: Total costs	3,977,442	4,200,196
less: Prior year deficit		

(Negative represents general fund subsidy)	<u>0</u>	<u>0</u>
---------------------------------------------------	----------	----------

4. Sources of Funding for Costs Appropriated in the Enterprise Fund

a. Revenue & available funds	3,977,442	4,200,196
b. Taxation		
c. Free Cash		
d. Non-Enterprise available funds		

Total Sources of Funding for Costs Appropriated in Enterprise Fund	<u>3,977,442</u>	<u>4,200,196</u>
-------------------------------------------------------------------------------	------------------	------------------

**BUREAU OF ACCOUNTS
SCHEDULE A-2
ENTERPRISE FUNDS**

**SALEM
TRASH ENTERPRISE FUND**

1. Enterprise Revenues & Available Funds

	(a) FY07 Budgeted Receipts	(b) FY08 Estimated Receipts
User Charges		800,000
Connection Fees		
Other Departmental Revenue		
Investment Income		
Total Revenues	0	800,000
Retained Earnings Appropriated**		
Other Enterprise Available Funds		
Total Revenue & Available Funds	0	800,000
		To Recap Part IIIB, line 3

Schedule A-2

2. Total Costs Appropriated

a. Costs appropriated in enterprise fund

Salary & Wages		55,232
Expenses		15,613
Contracted Services		3,154,341
Capital outlay		
Reserve Fund		
Total costs appropriated in enterprise fund	0	3,225,186

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

Total Costs	0	3,225,186
--------------------	---	-----------

3. Calculation of General Fund Subsidy

Revenue & available funds	0	800,000
less: Total costs	0	3,225,186
less: Prior year deficit		
(Negative represents general fund subsidy)	0	(2,425,186)

4. Sources of Funding for Costs Appropriated in the Enterprise Fund

a. Revenue & available funds		800,000
b. Taxation		2,425,186
c. Free Cash		
d. Non-Enterprise available funds		
Total Sources of Funding for Costs Appropriated in Enterprise Fund	0	3,225,186

ENTERPRISE FUND REVENUE DETAIL

Revenues for enterprise funds can come from the following sources:

- **Charges and fees** – Amounts paid by those who use the service. These include late charges, fees and interest incurred in the collection process.
- **Investment Income** – or interest earnings of the fund are retained in the fund rather than closing to the general fund. Such revenues may be used as estimated revenue when preparing the budget.
- **Other revenues** – include all other receipts such as state funding and grants and monies from apportioned and un-apportioned betterments and special assessments relating to the enterprise fund.
- **Retained earnings** – the surplus of the enterprise fund. Based on the submission of a June 30 balance sheet, the retained earnings of an enterprise may be used for appropriations only after the Bureau of Accounts certifies it as a surplus. This surplus may be used for capital projects or to offset the operating budget, which effectively reduces the user charges, rates, or general fund subsidy. Like free cash and other general fund reserves, the surplus must be appropriated before the subsequent June 20. After July 1, no appropriation can be made from the surplus until after it is certified by the Director of Accounts.
- **General Fund Subsidy** – Any revenue deficits in an enterprise fund can and should be funded by the general fund, either during the initial budgeting process (if anticipated) or raising on the Recap after year end.

The City of Salem uses the following sources to fund each enterprise fund:

Sewer – User fees, penalties and interest, sewer liens, backflow tests, other miscellaneous revenue and any Fund Balance Surplus at the South Essex Sewerage District. SESD surpluses are the result of our assessment payment being more than the actual costs of running SESD.

Water – User fees, Penalties and interest, water liens, sale of water meters, and revenue from shutoffs.

Trash – User fees, penalties and interest and General Fund Subsidy.

Major Changes:

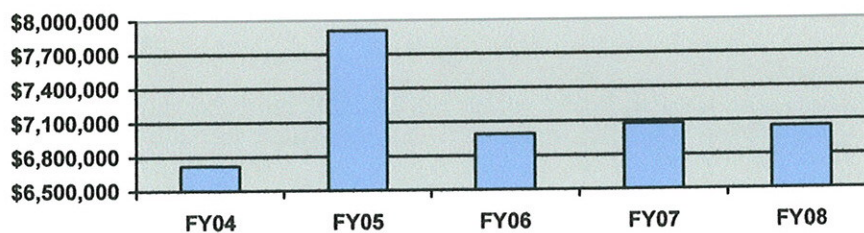
The only mayor change in the Enterprise Fund for FY 2008 is the establishment of the Trash Enterprise Fund. In FY 2007, the trash expense was budgeted in the general fund and trash receipts were collected and deposited into the general fund to partially offset the trash expenses.

SEWER ENTERPRISE FUND

Sewer Revenue – The sewer revenues consist of penalties & interest, sewer rates revenues, sewer liens revenue, sewer backflow tests, and miscellaneous revenue. We also request on an annual basis that SESD send us any retained earnings that they may be holding in our behalf.

<u>Year to Year Comparison</u>	<u>FY 04</u>	<u>FY 05</u>	<u>FY 06</u>	<u>FY 07</u>	<u>FY 08</u>	<u>% Change FY 07 – FY 08</u>
Sewer Revenues	\$6,720,131	\$7,909,582	\$6,990,045	\$7,074,210*	\$7,043,383*	-0.4%

*Estimated

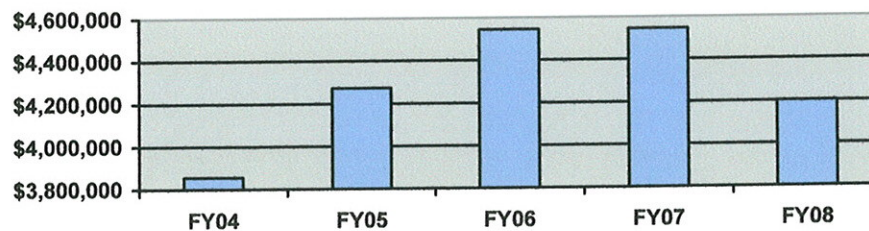


WATER ENTERPRISE

Water Revenue – The water revenues consist of penalties & interest, water rates revenues, water liens revenue, water backflow tests, and miscellaneous revenue. We also request on an annual basis that SESD send us any retained earnings that they may be holding in our behalf.

<u>Year to Year Comparison</u>	<u>FY 04</u>	<u>FY 05</u>	<u>FY 06</u>	<u>FY 07</u>	<u>FY 08</u>	<u>% Change FY 07 – FY 08</u>
Sewer Revenues	\$3,856,552	\$4,273,572	\$4,544,002	\$4,544,171*	\$4,200,196*	-7.6%

*Estimated



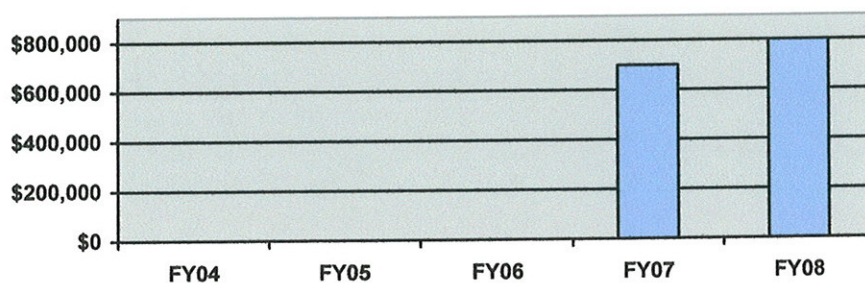
TRASH ENTERPRISE FUND

Trash Revenue – The trash revenues consist of penalties & interest and trash fee revenue. We subsidize the majority of the fund with a general fund transfer.

Important – In FY 2007 the trash fees were collected and expensed entirely in the general fund. For FY 2008 we created a Trash Enterprise Fund by vote of City Council.

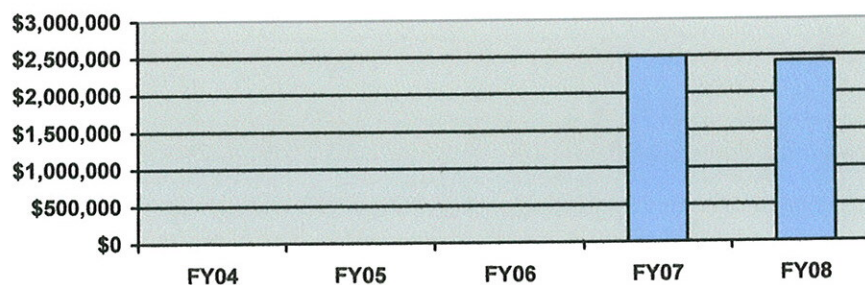
Year to Year Comparison	FY 04	FY 05	FY 06	FY 07	FY 08	% Change FY 07 – FY 08
Trash Fee Revenue	0	0	0	\$700,000*	\$800,000*	14.3%

*Estimated



Year to Year Comparison	FY 04	FY 05	FY 06	FY 07	FY 08	% Change FY 07 – FY 08
General Fund Subsidy	0	0	0	\$2,498,754*	\$2,425,186*	-2.9%

*Estimated



ENTERPRISE FUND GRAPHS

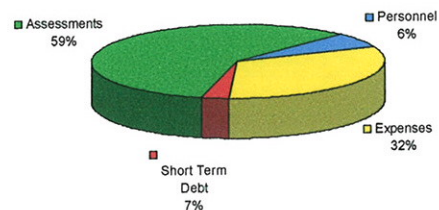
FY 2008

ADOPTED EXPENSES ENTERPRISE FUNDS

FY 2008

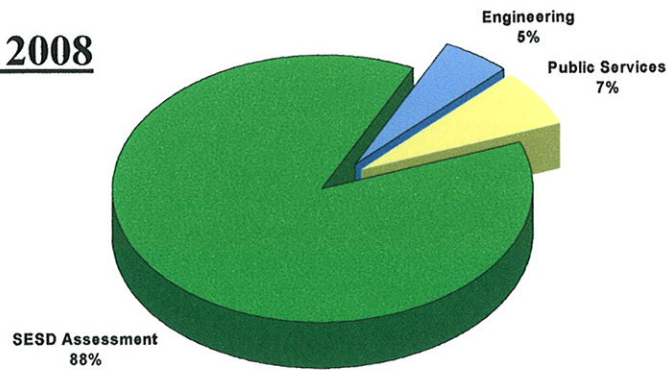
SEWER, WATER & TRASH

• Personnel	\$ 844,046
• Expenses	\$ 4,236,516
• Debt Service	\$ 401,281
• Assessments	\$ 7,747,014
• TOTAL	\$13,228,857



ADOPTED BUDGET SEWER

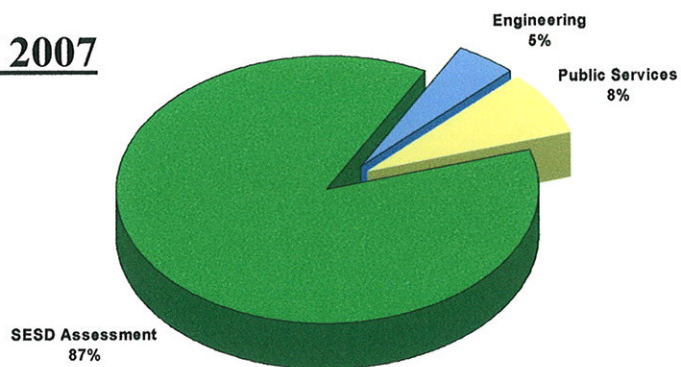
FY 2008



TOTAL \$6,383,741

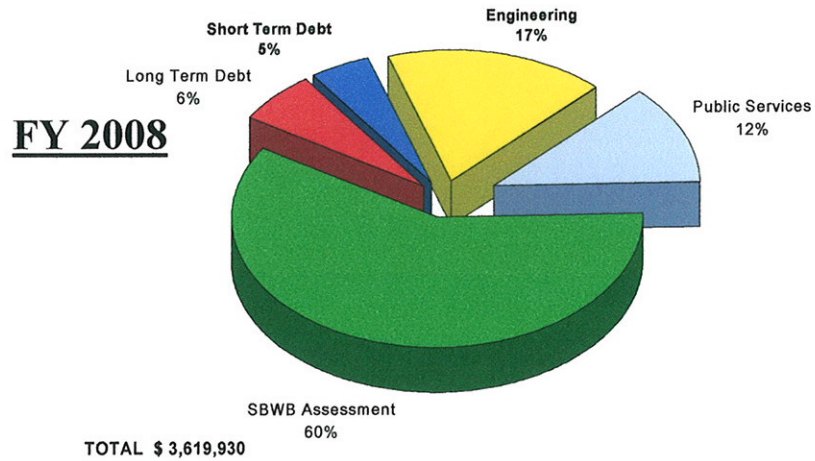
ADOPTED BUDGET SEWER

FY 2007

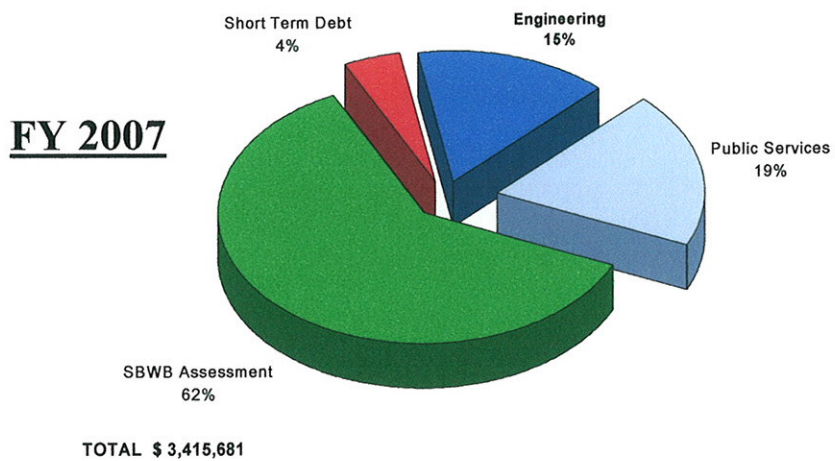


TOTAL \$6,295,244

ADOPTED BUDGET WATER

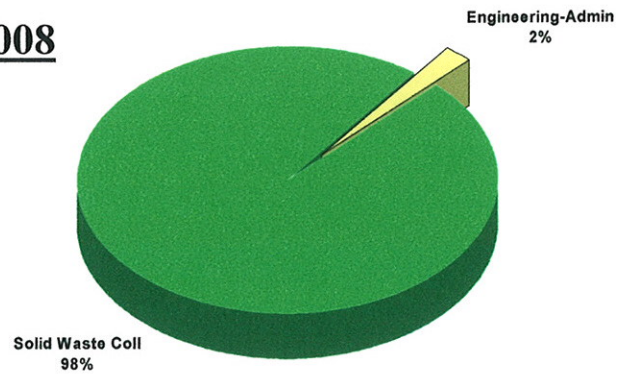


ADOPTED BUDGET WATER



ADOPTED BUDGET TRASH

FY 2008



TOTAL \$3,225,186