



Municipal Technical Advisory Service
INSTITUTE *for* PUBLIC SERVICE

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Enterprise Funds

Dear Reader:

The following document was created from the MTAS website ([mtas.tennessee.edu](http://www.mtas.tennessee.edu)). This website is maintained daily by MTAS staff and seeks to represent the most current information regarding issues relative to Tennessee municipal government.

We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with municipal government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other MTAS website material.

Sincerely,

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Enterprise Funds

Reference Number: MTAS-834

Cities usually operate their utility services in one of two ways. The city may have a separate utility board of commissioners that oversees and funds all utility operations, or the water and sewer utilities may be part of the city budget, and the aldermen serve as the utility board. In either situation, water and sewer utility funds should be set up in a separate fund known as an enterprise fund. Cities may have one enterprise fund for the water operation and another enterprise fund for the sewer operation. However, in most cases it is perfectly permissible to have a combined water and sewer fund. This option has two important advantages for the city:

- Costs can be spread over a larger customer base; and
- Consolidation makes it easier to address administrative, management, and bookkeeping problems.

If the utility elects to operate with a combined fund, bookkeeping should still segregate expenses for water and sewer so that accurate records will be maintained for the cost of operating the water and sewer systems. This is especially important when the utility is seeking grants and loans, as most agencies want to see the costs for water and sewer separately as they compare to revenues.

Enterprise funds differ from the city's general fund in several ways. Enterprise funds are concerned with income, while the general fund looks at both income and fund balance. Producing an income is important because it is the means of providing funds for capital projects, new equipment, etc. that the utility operation needs. Also, depreciation is used as an expense item in the enterprise fund, while it is not recognized in the general fund.

One other very important aspect of the enterprise fund is the fact that some loan and grant regulations require having a separate fund in order to obtain these monies. This is to assure the lender that there are sufficient revenues being generated by the utility operations to repay the debt.

EXAMPLE OF GENERAL FUND FINANCIAL REPORT			
XYZ City			
General Fund			
F/Y Ending June 30			
	BUDGET	ACTUAL	VARIANCE
REVENUES:			
Local Taxes	\$3,000,000	\$3,100,000	\$100,000
Licenses and Permits	\$30,000	\$35,000	\$5,000
Other Revenues	\$200,000	\$190,000	\$(10,000)
Total Revenues	\$3,230,000	\$3,325,000	\$95,000
EXPENDITURES:			
General Government	\$300,000	\$290,000	\$10,000
Administrative	\$200,000	\$210,000	\$(10,000)
Police Department	\$650,000	\$640,000	\$10,000
Fire Department	\$600,000	\$620,000	\$(20,000)
Parks and Recreation	\$300,000	\$275,000	\$25,000
Streets	\$650,000	\$655,000	\$(5,000)
Total Expenditures	\$2,700,000	\$2,690,000	\$10,000
Excess of revenues over expenditures	\$530,000	\$635,000	\$85,000

XYZ CITY	
WATER/SEWER FINANCIAL REPORT	
F/Y Ending June 30	
	Enterprise Fund
Revenues:	
Water Sales	\$800,000
Sewer Sales	\$600,000
Service Charges	\$20,000
Other Revenues	\$25,000
Total Revenues	\$1,445,000
Operating Expenses:	
Operating and Maintenance	\$700,000
Depreciation	\$150,000
Administrative	\$250,000
Other Expenses	\$100,000
Total Expenses	\$1,200,000
Operating Income	\$256,000
Interest Income	\$25,000
Interest Expense	(\$200,000)
Change in Net Assets	\$81,000
Beginning Net Assets	\$500,000
Ending Net Assets	\$581,000

State of Tennessee Requirements

Reference Number: MTAS-835

In 1987, the state legislature passed the Wastewater Facilities Act. T.C.A. § 68-221-1001 to 1015. This provides a method for the state to intervene in the financial affairs of any financially distressed, publicly owned wastewater facility. This act established the Water and Wastewater Finance Board (WWFB) to oversee financially distressed municipal wastewater systems. (Utility districts have a similar oversight board that covers their operations: the Utility Management Review Board, T.C.A. § 7-82-701 to 706.) In 1997 the Wastewater Facilities Act was amended to also include authority over financially distressed water systems that do not already have a combined fund with the sewer system.

Cities are required to have an annual independent audit of their financial records. Each of these audits is submitted by the auditor to the Tennessee Comptroller of the Treasury. Audits that show a net loss or negative net position are forwarded to the staff of the Wastewater Financing Board for further review and possible action if the system falls into one or more of the following situations:

- Two consecutive years of negative change in net position;
- Being in default on any long-term debt; or
- Deficit in net position in any one year.

City management will be asked to appear before the WWFB and submit a plan, for board approval, that will eliminate the deficits and operate the enterprise fund in a positive manner. The WWFB has established certain guidelines for the city to accomplish this:

- Deficit in net position — the WWFB may allow the city a period of time of up to 10 years to eliminate the deficit; or
- Two years consecutive negative changes in net position — the WWFB may allow the city a period of time of up to three years to begin operating with a positive change in net position.

In Tennessee, the state comptroller prescribes accounting standards and procedures. Some of the alternatives discussed in this manual exceed “recommended practices and procedures.” The comptroller has the final say over what’s acceptable in municipal accounting practices.

DISCLAIMER: The letters and publications written by the MTAS consultants were written based upon the law at the time and/or a specific sets of facts. The laws referenced in the letters and publications may have changed and/or the technical advice provided may not be applicable to your city or circumstances. Always consult with your city attorney or an MTAS consultant before taking any action based on information contained in this website.

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