

Inside Town Finances

Volume 10: Enterprise Funds and Sewer

What is an Enterprise Fund?

An Enterprise Fund is a separate accounting and financial reporting mechanism for municipal goods and services funded by user fees. In 1986, Massachusetts adopted legislation allowing municipalities to establish Enterprise Funds by majority votes of Town Meeting.

Municipalities often establish Enterprise Funds for business-like services such as utilities as well as health care, transportation, and recreational activities. Municipalities may not establish Enterprise Funds for normal government operations and services.



Enterprise funds are **self-supporting**; revenue collected equals or exceeds expenses.

Does Hingham have any Enterprise Funds?

Hingham has two Enterprise Funds: the South Shore Country Club (established in 1987) and the Weir River Water System (established in 2019). South Shore Country Club revenues from activities including golf, bowling, and the Greenside Grille fund its operating and capital expenses. The Weir River Water system collects revenue from ratepayers (water customers in Hingham, Hull, and North Cohasset), which are used to pay water system operating and capital expenses. The Sewer Commission provides sewer service to approximately 2,700 residences and/or businesses. While not an Enterprise Fund *per se*, the Sewer Commission operates much like an Enterprise Fund, collecting revenues from user fees, which fund operating and capital expenses.



How does an Enterprise Fund work?

Each Enterprise Fund have its own financial statements – separate from other governmental activities – which provide a complete and transparent view of its financial operations. All user fees and other revenues are deposited into the Enterprise Fund revenue account, and all expenses – direct costs, indirect costs, and capital outlays – are paid from the Enterprise Fund expense account. Any surpluses are classified as retained earnings and may only be used within the enterprise for purposes like capital investment and/or rate stabilization.



Enterprise Fund annual budgets are developed for and reviewed by the Board of Selectmen and Advisory Committee and require Town Meeting approval.

Is Hingham's Five-Year Forecast affected by Enterprise Funds or Sewer Commission?

While revenues and expenses for the South Shore Country Club, Weir River Water System, and Sewer Commission are contained in the Five-Year Forecast, revenues equal expenses. Therefore, the Five-Year Forecast's Excess and Shortfall are unaffected by Enterprise Funds or the Sewer Commission.



Could taxpayer dollars be used to support an Enterprise Fund?

Only as a 'bridge loan'. In the unlikely circumstance that an Enterprise Fund incurred an operating loss which could not be offset by retained earnings, the Town would provide a very short-term bridge loan. That loan would be promptly repaid by the Enterprise Fund upon receipt of sufficient additional user fees.