



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@osa.state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

Statement of Position Enterprise Fund Accounting

The purpose of this Statement of Position is to provide concise information on the accounting standards applicable to enterprise funds.

The Governmental Accounting Standards Board (GASB) describes enterprise funds in its Codification of Governmental Accounting and Financial Reporting Standards. It states that enterprise funds may be used “[t]o report any activity for which a fee is charged to external users for goods or services.” The Standards also describe the circumstances that control whether enterprise fund accounting is required, as follows:

Activities are required to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's principal revenue sources.

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)
- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).¹

Generally, fees and service charges should cover the cost of an enterprise fund activity

¹ *GASB Governmental Accounting and Financial Reporting Standards*, § 1300.109 (June 30, 2013).

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This Statement of Position is not legal advice and is subject to revision.

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unless the community as a whole derives some benefit from the service program.² If a benefit does accrue to the community, any subsidy should be proportionate to that benefit.³

If an enterprise fund is subsidized from other municipal funds, the best management practice is to base the subsidy on a conclusion by the municipality's governing body that the enterprise serves to benefit the community as a whole. In addition, the municipality should have a policy or plan in place that specifies goals and objectives for the performance of the enterprise fund, including the amount of subsidy considered appropriate and reasonable in light of the value of the benefits to the community.

² See [Handbook for Minnesota Cities, ch. 20](#), p. 8 (League of Minnesota Cities). (“In operating a city marina, for example, virtually no benefit accrues to the city as a whole, hence it would be difficult to justify an appropriation from the city’s general fund.”) A regular appropriation from the city general fund might be justified, however, for a city-operated hospital because the city as a whole benefits from the availability of medical facilities. *Id.*

³ The League of Minnesota Cities suggests the following formula to determine the amount of a general fund appropriation: The “total amount of the city appropriation, divided by the total income from fees, should be equal to the benefits accruing to the general public, divided by the benefits to private users. The proportion of operating costs the city treasury bears should equal the ratio of public benefit to private benefit.” *Id.*