

# Accounting for an Enterprise Fund

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## What is an Enterprise Fund?

- Enterprise Funds account for operations:
  - (a) that are financed and operated in a manner similar to private business where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed and recovered primarily through user charges; or
  - (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.



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## Characteristics of Funds

- Full Accrual TOTAL ECONOMIC RESOURCES
- User Fee-based
  - ad valorem or billed receivables
- Depreciation
- Net Assets
- Capital Assets and Debt within fund
- Can be used by Counties, Cities, Towns or Villages.



## Net Assets Classifications

|       |  |
|-------|--|
| E_920 | Net Assets-Invested In Capital Assets, Net of Related Debt |
| E_921 | Net Assets-Restricted For Capital Projects                 |
| E_922 | Net Assets-Restricted For Debt                             |
| E_923 | Net Assets-Restricted For Other Purposes                   |
| E_924 | Net Assets-Unrestricted (deficit)                          |



## Examples of Funds (E\_)

- Airports (EA)
- Electric Utilities (EE)
- Health Related Facilities (EF)
- Hospitals (EH)
- Infirmaries (EI)
- Refuse and Garbage (EL)
- Parking (EP)
- Recreation (ER)
- Sewer (ES)
- Water (EW)



## Sample Entries – Expenses

|                                 |          |
|---------------------------------|----------|
| 522 Expenses                    | \$10,000 |
| 600 Accounts Payable            | \$10,000 |
| • To record operating expenses. |          |

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|   |         |
|---|---------|
| 445 Inventory                                   | \$5,000 |
| 600 Accounts Payable                            | \$5,000 |
| • To record purchase of supplies and materials. |         |

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|                                     |         |
|-------------------------------------|---------|
| 522 Expenses                        | \$3,000 |
| 445 Inventory                       | \$3,000 |
| • To record cost of materials used. |         |



## Calculating Depreciation

- Determine Acquisition Cost (Historical Cost)
- Add: Related charges such as installation or freight (capitalized costs)
- Less: Salvage value at the end of useful life
- Equals depreciable value of the asset

Then apply depreciation method to this value, i.e. straight line depreciation, declining-balance.



## Calculating Depreciation

For Example:

- Purchased Truck for \$50,000
- Salvage value at end of 10-year useful life is \$7,000.
- Depreciable value = \$43,000
- Divided over 10 years, if using straight line method
- \$4,300 annual accumulated depreciation charge



## Capital Asset Codes

\*Same as used in schedule K – Non-Current Governmental Assets

- 101 – Land
- 102 – Buildings
- 103 – Improvements other than Buildings
- 104 – Machinery and Equipment
- 105 – Construction Work in Progress
- 106 – Infrastructure
- 107 – Other Capital Assets



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## Accumulated Depreciation Codes

- 112 – Accumulated Depreciation, Buildings
- 113 – Accumulated Depreciation, Improvements other than Buildings
- 114 – Accumulated Depreciation, Machinery and Equipment
- 116 – Accumulated Depreciation, Infrastructure
- 117 – Accumulated Depreciation, Other Capital Assets



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## Sample Entries – Capital Assets and Depreciation

|                             |          |
|-----------------------------|----------|
| 104 Machinery and Equipment | \$50,000 |
| 200 Cash                    | \$50,000 |

- To record acquisition of machinery and equipment.

|                              |         |
|------------------------------|---------|
| 522 Expense                  | \$4,300 |
| 1994.2 Depreciation          |         |
| 114 Accumulated Depreciation | \$4,300 |
| (Machinery and Equipment)    |         |

- To record annual depreciation charges.



## Sample Entries – Capital Assets Sold at a Gain

|                              |          |
|------------------------------|----------|
| 200 Cash                     | \$9,000  |
| 114 Accumulated Depreciation | \$43,000 |
| 104 Machinery and Equipment  | \$50,000 |
| 980 Revenues                 | \$2,000  |
| 2675 Gain on Sale of Assets  |          |

- To record gain on sale of asset.



## Sample Entries – Capital Assets Sold at a Loss

|   |  |          |
|---|--|----------|
| 200 Cash                                |  | \$5,000  |
| 114 Accumulated Depreciation            |  | \$43,000 |
| 522 Expenses                            |  | \$2,000  |
| 1995.2 Loss on Disposal of Fixed Assets |  |          |
| 104 Machinery and Equipment             |  | \$50,000 |

- To record loss on sale of asset.

## Sample Entries – Debt Issuance

|                              |  |             |
|------------------------------|--|-------------|
| 220 Cash from Obligations    |  | \$1,060,000 |
| 628 Bonds Payable            |  | \$1,000,000 |
| 651 Accrued Interest Payable |  | \$10,000    |
| 980 Revenues                 |  | \$50,000    |
| 2710 Premiums on Obligations |  |             |

- To record the sale of bonds at premium and accrued interest.

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|                                 |  |          |
|---------------------------------|--|----------|
| 522 Expenses                    |  | \$25,000 |
| 9710.7 Interest on Serial Bonds |  |          |
| 651 Accrued Interest Payable    |  | \$25,000 |

- To record accrual of interest on serial bonds as of year-end.

## Sample Entries – Debt Payment

|                                 |           |           |
|---------------------------------|-----------|-----------|
| 522 Expenses                    | \$75,000  |           |
| 9710.7 Interest on Serial Bonds |           |           |
| 628 Bonds Payable               | \$100,000 |           |
| 651 Accrued Interest Payable    | \$25,000  |           |
| 200 Cash                        |           | \$200,000 |

- To record payment of principal and interest on bonds.



## Audit Concerns

- Using for special district or other governmental fund operations;
- Unplanned subsidized operations;
- Inappropriate accounting; and/or
- Inaccurate accounting.





# Questions?

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