ENTERPRISE FUNDS

Caption editorially supplied

§ 39K. Enterprise funds

Notwithstanding the provisions of section fifty-three or any other provision of law to the contrary, a city or town which accepts the provisions of this section may establish a separate account classified as an "Enterprise Fund", for a utility, health care, recreational or transportation facility, and its operation, as the city or town may designate, hereinafter referred to as the enterprise. Such account shall be maintained by the treasurer, and all receipts, revenues and funds from any source derived from all activities of the enterprise shall be deposited in such separate account. The treasurer may invest the funds in such separate account in the manner authorized by sections fifty-five and fifty-five A. Any interest earned thereon shall be credited to and become part of such separate account. The books and records of the enterprise shall be maintained in accordance with generally accepted accounting principles and in accordance with the requirements of section thirty-eight.

No later than one hundred and twenty days prior to the beginning of each fiscal year, an estimate of the income for the ensuing fiscal year and a proposed line item budget of the enterprise shall be submitted to the mayor, board of selectmen or other executive authority of the city or town by the appropriate local entity responsible for operations of the enterprise. Said board, mayor or other executive authority shall submit its recommendation to the town meeting, town council or city council, as the case may be, which shall act upon the budget in the same manner as all other budgets.

The city or town shall include in its tax levy for the fiscal year the amount appropriated for the total expenses of the enterprise and an estimate of the income to be derived by the operations of the enterprise. If the estimated income is less than the total appropriation, the difference shall be added to the tax levy and raised by taxation. If the estimated income is more than the total appropriation, the excess shall be appropriated to a separate reserve fund and used for capital expenditures of the enterprise, subject to appropriation, or to reduce user charges if authorized by the appropriate entity responsible for operations of the enterprise. If during a fiscal year the enterprise incurs a loss, such loss shall be included in the succeeding fiscal year's budget.

If during a fiscal year the enterprise produces a surplus, such surplus shall be kept in such separate reserve fund and used for the purposes provided therefor in this section.

For the purposes of this section, acceptance in a city shall be by vote of the city council and approval of the mayor, in a town, by vote of a special or annual town meeting and in any other municipality by vote of the legislative body.

A city or town which has accepted the provisions of this section with respect to a designated enterprise may, in like manner, revoke its acceptance.

Added by St.1986, c. 306.

[PUBLIC WATER SUPPLY (CONT'D)]

§ 40. Repealed by St.1985, c. 592, § 2

Historical Note

See, now, M.G.L.A. c. 21G, § 15 et seq.

§ 41. Protection of water supply; conditions

Towns and water supply and fire districts duly established by law may, with the consent and approval of the department of environmental quality engineering, given after due notice and a hearing, take by eminent domain under chapter seventy-nine, or acquire by purchase or otherwise, and hold, lands, buildings, rights of way and easements within the watershed of any pond, stream, reservoir, well or other water used by them as a source of water supply, which said department may deem necessary to protect and preserve the purity of the water supply. All lands taken, purchased or otherwise acquired under this section shall be under the control of the board of water commissioners of the town or district acquiring the same, who shall manage and improve them in such manner as they shall deem for the best interest of the town or district. All damages to be paid by a town or district by reason of any act done under authority hereof may be paid out of the proceeds of the sale of any bonds authorized by law to be issued by such town or district for water supply purposes or from any surplus income of the water works available therefor. A town may also make a contract to contribute to the cost of building, by any other town situated in the watershed of its water supply, a sewer or

The Cambridge Hospital

1493 Cambridge Street Cambridge Massachusetts 02139 (617) 498-1000

May 30, 1991

Mr. Robert W. Healy
City of Cambridge
City Hall
Cambridge, MA 02139

Dear Mr. Healy:

Since Fiscal Year 1980, the hospital's financial statements have been recorded on an Enterprise Fund basis at year end utilizing accrual accounting (revenues are booked when earned not received and expenses when incurred not when paid) but has used a hybrid system of cash and accrual accounting principles to report its financial performance. This hybrid system of accounting is inconsistent with State law governing municipal Enterprise Funds, which calls for the use of accrual accounting principles in recording and reporting financial activity. Two weeks ago, the City Treasurer and I met with the City's outside auditors, KPMG Peat Marwick, to discuss this problem and other related problems, and KPMG Peat Marwick recommended that we adopt a complete Enterprise Fund of accounting for the hospital that is consistent with State law and is based on accrual accounting principles. Thus, I am requesting that you seek City Council approval to formalize the hospital's Enterprise Fund and authorize the hospital to use Generally Accepted Accounting Principles (GAAP) to record and report financial activity beginning with the current Fiscal Year, 1991. In light of the recent integration of the management of the Neville Manor with that of the hospital and that the shift to a formal Enterprise basis of accounting also makes similar sense for Neville Manor, I recommend the approval of this measure for Neville Manor as well.

The formalization of an Enterprise Fund and acceptance of GAAP will also be a significant step forward toward helping us strengthen the financial stability of the hospital and Neville Manor. First, it will improve financial control by eliminating some accounting inconsistencies that exist today between budgeting and financial reporting. Second, it will improve our ability to allocate scarce resources and manage assets by placing the financial systems on the same accounting basis as the rest of the healthcare industry. Third, it will help further maximize reimbursement as the industry continues to move toward standardized performance measures for costs and rates of payments, and away from individual costs. Fourth, and most important, it will stabilize and make more predictable the City's tax subsidy to the hospital and Neville Manor by reducing the impact that significant wide positive and negative swings in receipts from year to year have today in terms of the City's ability to produce a balanced cash budget.

In the short term - this fiscal year, this change in accounting to an Enterprise Fund using GAAP will benefit the respective healthcare institutions and the City by allowing the hospital and Neville Manor to retain on its Balance Sheet any excess receipts above the budgeted receipts to be deposited in the general fund. These receipts will be allocated to dedicated Health and Hospital accounts which will be managed and controlled like all other City monies by the Assistant City Manager for Fiscal Affairs. In fiscal year 1991 and beyond, all hospital and nursing home related receipts as well as the City Council approved tax support of the hospital will be deposited to this account. The disbursements for expenses will be expended against this account. If actual cash receipts, when combined with the approved City tax support which would be deposited to this account in periodic installments, exceed total disbursements by year end, the excess would be retained in this account so as to offset future third party liabilities or other cyclical revenue shortfalls. Use of these retained earnings above and beyond the budget approved by the City Council, would require an affirmative vote of the City Council. This will allow the hospital, Neville Manor and the City to stabilize cash budgeting both this fiscal year and next fiscal year since these excess receipts are from third party prior year settlements that are budgeted in the hospital's fiscal year 1992 receipts total. Thus, you can see that all parties benefit from this change because we now have the tools to better manage cash receipts and their impact on the City's ability to produce a balanced cash budget in each fiscal year. At the same time, it is important to recognize that this change to an Enterprise Fund and GAAP is strictly an accounting change that does not alter in any manner the current way that funds are appropriated and expended.

Because of the need to institute this change in this fiscal year, 1991, so that FY'91 hospital and Neville Manor financial statements are based on GAAP, I recommend that you request the City Council to formalize this change as soon as possible. Your consideration in this matter is greatly appreciated.

Thank you.

Sincerely,

John G. O'Brien
Hospital Administrator

cc: The Cambridge Hospital Governing Board Members
Neville Manor Board Members
Melvin. H. Chalfen, M.D.
Paul Hollings

CCM-101

City of Cambridge

Calendar Item # 4
~~Agenda # 9~~
IN CITY COUNCIL

~~June 3, 1991~~
June 10, 1991

ORDERED: That this City Council go on record accepting the provisions of Chapter 40, Section 39k of the Massachusetts General Laws relative to establishing enterprise funds for the Cambridge Hospital and Neville Manor.

In City Council June 10, 1991.
Adopted by a yea and nay vote:-
Yeas 8; Nays 0; Absent 1.
Attest:- Joseph E. Connarton, City Clerk.

A true copy; Joseph E. Connarton

ATTEST:-

Joseph E. Connarton, City Clerk

CCM-101

City of Cambridge

Calendar Item # 4
~~Agenda # 9~~
IN CITY COUNCIL

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CCM-101

City of Cambridge

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A true copy; Joseph E. Connarton

ATTEST:-

Joseph E. Connarton, City Clerk

C. C. 106

City of Cambridge

MASSACHUSETTS

Agenda # 9 Acceptance of Chapter 40, Section 39k re: enterprise funds for the Cambridge Hospital and Neville Manor.

In City Council June 3 1991

	YEA	NAY	ABSENT	PRESENT	
Mr. Ed Cyr	✓				
Mr. Francis H. Duehay	✓				
Mr. Jonathan S. Myers	✓				
Mr. Kenneth E. Reeves			✓		
Mrs. Sheila T. Russell	✓				
Mr. Walter J. Sullivan	✓				
Mr. Timothy J. Toomey, Jr.	✓				
Mr. William H. Walsh	✓				
Mayor Alice K. Wolf	✓				
	8	0	1		

c. 90
ms
Mf

9.

CITY OF CAMBRIDGE
CAMBRIDGE, MASSACHUSETTS 02139
TEL. 349-4300
FAX. 349-4307

EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

RICHARD C. ROSSI
Deputy City Manager

June 3, 1991

To The Honorable, The City Council:

RECOMMENDATION:

That the City Council accept Chapter 40, Section 39k of the General Laws (copy attached) which will enable the City to formally establish individual enterprise funds for the Cambridge Hospital and the Neville Manor.

BACKGROUND:

Since FY80 the City has recorded financial activities of the Cambridge Hospital on a Generally Accepted Accounting Principles (GAAP) basis. Additionally, since FY83 the City Council has appropriated Hospital and Neville Manor budgets to funds accounted for separately within the City's financial accounting system. However, because the City has never accepted the statute that allows enterprise fund accounting the City has always had to include Hospital and Neville financial activities on the General Fund financial statements submitted annually to the Commonwealth Department of Revenue, statements which did not conform to GAAP standards.

Because the City was reporting financial activities to the state as part of the General Fund year end activity at both the Hospital and Neville became needlessly complicated as those institutions tried to time receipts from third parties so that early receipts would not improperly deflate the General Fund balance and therefore have an undue impact upon the City's tax rate.

As the Council is aware, Hospital and Nursing Home payments from third party insurers and the state and federal government are somewhat complex with the timing of these payments as well as any settlements (refunds) back to these parties being difficult to predict. The acceptance of this statute will allow accrual accounting methods to replace the cash accounting methods currently used to report Hospital and Neville activity to the Department of Revenue. Interestingly enough, the Hospital and Neville already report expenditures and revenues to other state and federal agencies on an accrual method as proposed in this recommendation.

FISCAL IMPACT:

The establishment of Enterprise Fund Accounting for the Hospital and Neville Manor will be a significant step forward in strengthening the financial stability of both the Hospital and Neville Manor. By moving to GAAP reporting it will become possible in the long term to better predict Hospital and Neville finances. In the short term possible excess receipts at those institutions this year as a result of retroactive third party payments can be returned by those facilities to offset any unexpected shortfalls next fiscal year. Acceptance of this statute will greatly assist in the financial management of these health care providers and is strongly recommended.

Very truly yours,

Robert W. Healy
City Manager

RWH/mev

Agenda # 9 S-783

Acceptance of Chapter 40, Section 39k
re: enterprise funds for the Cambridge
Hospital and Neville Manor.

In City Council,

June 3, 1991

Charter Right exercised
by Councillor Walsh
6/10/91 Order adopted
8-0-1

6/12/91 Copies sent to
Cambridge Hosp. +
Neville Manor (dc)