

INDIRECT COST ALLOCATION

PURPOSE

To apportion all the indirect costs associated with the Town's water enterprise fund in an equitable manner that reflects the operation's true shared costs, this policy provides guidelines for calculating, allocating, and reviewing those costs.

Under authority established in [M.G.L. c. 44 § 53F½](#), the water service is managed and accounted for separately from the general fund and has its own financial statements. Consolidating the program's direct and indirect costs, debt service, and capital expenditures into a segregated fund allows the Town to demonstrate to the public the true, total cost of providing the service.

APPLICABILITY

This policy applies to budgetary functions of the Finance Department/Town Accountant, the Water Department Superintendent and the Board of Water Commissioners. Further, it encompasses enterprise-related administrative functions of the Finance Department/Town Accountant, Treasurer/Collector, and Town Manager.

POLICY

As part of the annual budget process, the Town Accountant will calculate the Water Department's indirect costs to the general fund and will review the figures with the Water Department Superintendent. The calculations will take into account all the enterprise-related expenses of the Town departments that provide administrative services to the water operation, namely:

- Accounts payable, payroll, and general ledger services provided by the Town Accountant
- Turnover processing, banking, investment, tax title, and payroll services provided by the Treasurer/Collector Department
- Annual budget development and coordination services provided by the Town Manager

For these expenses and those listed below, the Town Accountant will calculate indirect costs using the most recent fiscal year's appropriations and based on the estimated support methodology, which is outlined as follows and takes into account:

- Benefits for active and retired employees, including insurances, Medicare tax, unemployment, workers' compensation
- Pensions
- Vehicle insurance
- Property insurance
- Independent audit services
- Actuarial services
- Legal services
- Information technology expenses
- Other costs that may be considered and agreed to and documented

The Town Accountant will maintain a written procedure detailing the costs and calculation methodologies used. Upon preparation of the calculated results for the subsequent fiscal year budget, the Finance Department will provide the calculated amount, with supporting methodology, to the Water Department Superintendent and the Board of Water Commissioners as early in the annual budgeting process as is feasible, based on when information becomes known regarding the indirect costs to be allocated. The Finance Department will make the Town Accountant, or other department representative, available to meet with the Water Superintendent and Water Commission if and as needed to review the calculated amount and methodology.

If the Water Commission wishes to contest the amount or methodology of the calculated amount, it may do so in writing to the Town Manager. The Town Manager shall have the authority, based on his/her review of the methodology and based on conferral with the parties, to authorize the calculated amount, or another amount if found to be a more accurate estimate, which will appear in the Water Department expense budget to be proposed to Town Meeting.

Upon approval of the Annual Town Budget, including a Water Department expense budget that incorporates the calculated amount, the Town Account will record transfers between the relevant funds by January 1 each year.

Methodology for Calculating Indirect Costs

The Finance Department will prepare a reasonable **estimate of support** (i.e., an estimate of the average time spent to support a particular service). For example, the Town Manager estimates he/she spends on average four hours weekly, or 10 percent of his/her time, on water-related activities (e.g., meetings, budgeting, clerical tasks). This percentage is applied against the department's or official's salary and benefits, including health and life insurance, Medicare, retirement and any workers' compensation.

$$\frac{\text{Hours worked on enterprise activities per year by individual(s)}}{\text{Total hours worked per year by individual(s)}} \times \text{Salary and benefits of individual(s) working on enterprise activities} = \text{Indirect Departmental Salaries}$$

The sum total of all departments' or officials' expenses related to water operations will be included in the annual Water Department budget per the aforementioned process, then charged directly to the Water Department's budget within the subsequent fiscal year.

REFERENCES

DLS Informational Guideline Release 08-101: [Enterprise Funds](#)
 Government Finance Officers Association Best Practices: [Indirect Cost Allocation](#) and [Full Cost Accounting for Government Services](#)

EFFECTIVE DATE

This policy was adopted on August 5, 2019.