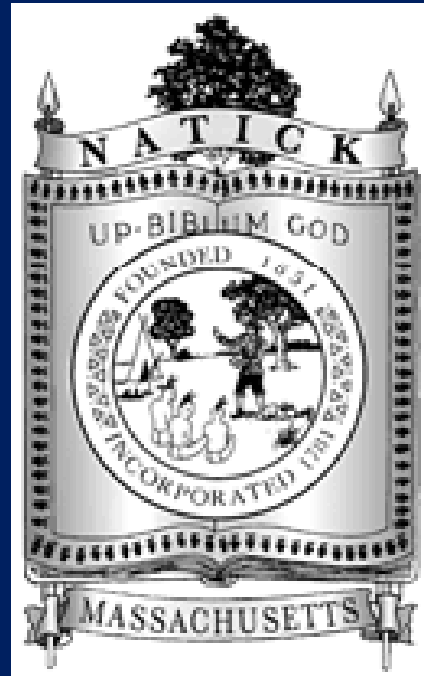


Town of Natick



FY 2014 Budget

Indirects

February 7, 2013



Town of Natick

FY 2014 Budget - Indirects

Presentation Summary:

1. Enterprise Funds – Philosophy & Forms of Accounting
2. Indirects In Natick
3. Adjustments to Indirects in FY 2014
4. Closing



Town of Natick

FY 2014 Budget - Indirects

1. Enterprise Funds – Philosophy & Forms of Accounting

“An enterprise fund, authorized by MGL Ch. 44 §53F½, is a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. It allows a community to demonstrate to the public the portion of total costs of a service that is recovered through user charges and the portion that is subsidized by the tax levy, if any. ***With an enterprise fund, all costs of service delivery--direct, indirect, and capital costs--are identified.*** This allows the community to recover total service costs through user fees if it chooses.... Services that may be treated as enterprises include, but are not limited to, water, sewer, hospital, and airport services.”

Source: Massachusetts department of Revenue. <http://www.mass.gov/dor/local-officials/dls-newsroom/dls-publications/new-growth/municipal-finance-glossary/municipal-finance-glossary-d-through-h/enterprise-funds.html>



Town of Natick

FY 2014 Budget - Indirects

1. Enterprise Funds – Philosophy & Forms of Accounting

Direct Costs: Costs clearly identifiable and readily attributable to the service being costed.

Examples: Salaries, purchase of services, contractual services, assessments, supplies, employee benefits, debt service



Town of Natick

FY 2014 Budget - Indirects

1. Enterprise Funds – Philosophy & Forms of Accounting

Indirect Costs: Costs not readily attributable to a service or department, because they are shared with other services or departments.

There are two kinds of indirect costs:

Indirect operating costs: Costs of services not provided to the public but support all departments – fuel, liability insurance, equipment maintenance, etc.

Indirect administrative costs: Shared costs of management and policymaking that cannot be assigned to individual services or departments – town administration, finance, town counsel, public works administration, etc.



Town of Natick

FY 2014 Budget - Indirects

1. Enterprise Funds – Philosophy & Forms of Accounting

Why do we account for indirect costs?

Because the goal of an enterprise fund is to run a municipal operation like an enterprise – or a business. To do this we must identify **all costs** of providing services. The items which indirect costs are attributed to are those which would be necessary for the enterprise funds to have if the rest of the government did not exist.



Town of Natick

FY 2014 Budget - Indirects

1. Enterprise Funds – Philosophy & Forms of Accounting

Why do we account for indirect costs?

According to the Mass. DOR: “Indirect costs are distinguished from direct costs by the fact that they cannot be assigned precisely to various municipal activities. As a result, indirect costs allocated to a particular department or service are approximate rather than exact costs. Sometimes, this fact bothers officials who like to have precise cost figures. It is important to remember that even though indirect costs are approximations, including them in the full cost of municipal services results in more accurate cost information than if they are not included at all.”

Source: Costing Municipal Services: Workbook and Case Study. Massachusetts Department of Revenue. March 2005. Page 12.



Town of Natick

FY 2014 Budget - Indirects

2. Indirects in Natick

- Indirects are assessed annually against the Water & Sewer Enterprise Fund. Proposed to also be assessed the Sassamon Trace Golf Course Enterprise Fund beginning in FY 2014.
 - Have been for W&S since fund creation in FY 2004, and were assigned even before funds were created.
 - Indirects are assessed for both Operating and Administrative Costs.
 - Indirects, like all facets of Water & Sewer Enterprise Finances, were reviewed independently in November 2005 by an outside audit firm. They were found to be *“either supportable or reasonable based on accepted methods.”*
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Town of Natick

FY 2014 Budget - Indirects

2. Indirects in Natick

- Indirects are calculated by assigning a percentage to the contributing general fund department relative to the amount of time spent by that department in service to the enterprise fund. For example:

Gasoline/Diesel

<u>Salaries</u>	<u>Benefits</u>	<u>Expenses</u>	<u>Total</u>
\$ 0	\$ 0	\$468,150	\$ 468,150
X			20%
Indirect Cost			\$ 93,630

Basis: Amount of fuel consumed by Water/Sewer Vehicles/total fuel consumption



Town of Natick

FY 2014 Budget - Indirects

3. Adjustments to Indirects in FY 2014

- Adoption and Implementation of Indirect Policy
- Reduction of Indirect Assessments to Water & Sewer Enterprise Fund
- Implementation of Indirect Assessments to Sassamon Trace Golf Course Enterprise Fund



Town of Natick

FY 2014 Budget - Indirects

3. Adjustments to Indirects in FY 2014

Adoption and Implementation of Indirect Policy

An audit finding for the last several years and a strong suggestion of the Department of Revenue, the Town of Natick has established a draft Indirect Cost Allocation Methodology & Policy. It is attached to this presentation. It provides basic guidelines for review of the indirect allocations and sets forth required reviews of the policy and allocations.



Town of Natick

FY 2014 Budget - Indirects

3. Adjustments to Indirects in FY 2014

Reduction of Indirect Allocations for the Water & Sewer Enterprise Fund

When reviewing the Indirect allocations for FY 2014, staff carefully reviewed every assessment and determined that several individual assessments were inaccurate and needed to be reduced. In addition, staff reviewed the overall indirect cost allocation as a percentage of the fund and found that the amount being charged was too high. We have begun a three-year reduction in indirects to bring the overall administrative and operational indirect assessment more in line with the total costs of administration of the municipal general fund.



Town of Natick

FY 2014 Budget - Indirects

3. Adjustments to Indirects in FY 2014

Reduction of Indirect Allocations for the Water & Sewer Enterprise Fund

What has been reduced?

- Public Safety – From \$369,890 to \$292,725
- Building Maintenance – From \$123,071 to \$45,019
- Financial/Administrative – From \$619,583 to \$546,157
- Debt Service – From \$69,626 to \$0 (*assessment was being charged to enterprise fund for portion of Municipal Complex Debt*)

What is the total reduction?

10%, or \$257,935

What is the goal?

To reduce the overall impact of indirects from 23.5% of the fund to approximately 18%. We believe this will take FY 2014, FY 2015 and FY 2016 to implement without overtly straining the general fund.



Town of Natick

FY 2014 Budget - Indirects

3. Adjustments to Indirects in FY 2014

Implementation of Indirects for the Golf Course FY 2014

Attempted last year, with the bringing of maintenance in-house the assignment of indirect costs must happen in FY 2014 in order to comply with recommended accounting practices. Fuel, Insurance and ability to properly account for Sassamon employees serving the DPW General Fund operations need to be accounted for as an indirect cost within the Sassamon Trace Enterprise Fund Budget. This will be explored/explained in further detail when the Golf Course budget is presented.



Town of Natick

FY 2014 Budget - Indirects

4. Closing

Indirect cost allocation is an essential step in properly accounting for the costs incurred when running an enterprise fund. The Town of Natick has attempted to monitor, refine and review indirect costs annually to ensure that the true cost of operations is clearly stated for ratepayers and taxpayers alike. With the adoption of a governing policy, reduction of Water & Sewer indirects and implementation of Sassamon Trace indirects, the indirects for FY 2014, the Town continues to follow best practices and responsibly account for all of its costs.



Town of Natick ~ Home of Champions

Thank You

Town of Natick

Finance Department – Indirect Cost Allocation Methodology & Policy

Purpose

This policy is designed to provide guidelines for the review and general formulation of Indirect Costs for any fund maintained by the Town of Natick.

Guidelines

- 1) Indirect Costs shall be calculated for and applied to those funds which have a relationship but are not the general fund. (E.g. Enterprise Funds).
- 2) Indirect Costs will be calculated and applied to two funds: the Water & Sewer Enterprise Fund and the Sassamon Trace Golf Course Enterprise Fund. Both funds are established and maintained under the rules set forth of M.G.L. Ch. 44, §53F½.
- 3) As a general rule, Indirect Costs will be calculated:
 - a. By taking into account all related expenses to a general fund department which provides services to the enterprise fund. (E.g. “all related expenses” includes salaries & wages, employee benefits and expenses)
 - b. According to actual calculations of time and material spent or consumed in support of the enterprise fund receiving the benefit of the service; and,
 - c. According to a reasonable estimate of time historically spent by the department in support of the enterprise fund receiving the benefit of the service
- 4) Indirect Costs will be based upon the most recent fiscal year’s appropriated budget. (E.g. Indirect costs for FY 2014 will be based upon FY 2013.)
- 5) This policy will be reviewed by the Finance Director, Town Treasurer, Director of Public Works and Director of Recreation & Parks as necessary to ensure accuracy, but no less than annually.
- 6) This policy will be reviewed annually as part of the annual operating budget process and adjustments to it made in time for the annual operating budget submission.

Policy Creation: December 13, 2012

Policy Creator: Michael Walters Young, Finance Director