**Indirect Costs**

Indirect Costs are defined as the costs of a service not reflected in the operating budget of the entity providing the service. An example of an indirect cost of providing water service would be the value of time spent by non-water department employees processing bills. A determination of these costs is necessary to analyze the total cost of service delivery.

Topsfield has an established Water Enterprise Fund. Under M.G.L. c. 53 F1/2, the town can be reimbursed for services its departments provided to the enterprise operations, including those involved with processing bills, collecting payments, and any other administrative-related activities. The Department of Revenue recommends that the town identify all enterprise-related costs, including the work performed by the town administrator, accountant, collector, and treasurer, so that a true picture of the cost of this service is reflected and captured in the enterprise budget. This accounting method enables the town to demonstrate the full cost of providing these services; to recover those costs through user fees instead of relying on the tax levy; and to preserve any surplus revenue as retained earnings that can be used to cover operating, capital, or debt service costs.

Each year, the Town Accountant must identify indirect costs in order to clearly identify all related revenues and expenditures. In Topsfield, this has been accomplished by using the actual numbers from the last fiscal year to prepare the budget for the upcoming fiscal year. For example, to estimate the Fiscal Year 2020 Indirect cost, actual expenditures from Fiscal Year 2018 would be used.