



DLS

DIVISION OF LOCAL SERVICES
MA DEPARTMENT OF REVENUE

Geoffrey E. Snyder
Commissioner of Revenue

Sean R. Cronin
Senior Deputy Commissioner

To: Melissa Rodrigues, Town Manager

From: Marcia Bohinc, Senior Project Manager
Frank Gervasio, Project Manager

Date: January 25, 2021

Re: The Stevens Estate Enterprise Fund Financial Review

BACKGROUND

The Division of Local Services (DLS) Technical Assistance Bureau (TAB) conducted a financial management review of the enterprise fund accounting for the Stevens Estate at Osgood Hill at the request of North Andover's Town Manager. By obtaining an independent review, the town sought to ensure it has accounted for funds related to the enterprise properly and is following best practices in its management of the enterprise.

For the review, TAB staff interviewed Town Manager Melissa Rodrigues, Community and Economic Development Director Andrew Shapiro, and Town Accountant/Finance Director Lyne Savage. In addition, TAB staff met with the Director of the Stevens Estate, Joanna Ouellette, and David Brown, Jerry Justin, Robin Ellington, and Thomas Dugan, all members of the Stevens Estate Trustees of Osgood Hill. TAB examined such documents as the tax rate recapitulation sheet, annual budget information, independent audit, and other financial and legal documents.

This report offers recommendations regarding the accounting of the enterprise fund that will align the town with best practices, and as a result, create greater transparency surrounding the enterprise's operations and finances.

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A BRIEF HISTORY OF THE STEVENS ESTATE AT OSGOOD HILL

Listed on the National Register of Historic Places, the Stevens Estate at Osgood Hill is located between Route 133 and Lake Cochichewick in North Andover. The 154-acre site features walking trails and, most notably, a mansion and outbuildings formerly owned by Moses Stevens, a benefactor of the town. Originally donated to the Boston University Theology School by the Stevens family in 1953, the town purchased the Estate from Boston University in 1995 for \$4.9 million. As a show of community commitment, the purchase was funded by a taxpayer debt excluded override with the last payment made in FY2018.

The mansion currently serves as a corporate, social, and wedding event venue, and is the only revenue generating portion of the original Estate. The grounds and walking trails are open to the public, and the outbuildings are in disrepair or not available for public purposes. One of these buildings, the Estate's carriage house, is currently used for storage by one of the Town's public safety departments.

FINANCIAL OVERVIEW

Beginning in FY2001, North Andover adopted M.G.L. c. 53F½ establishing the Stevens Estate Conference Center as an Enterprise Fund. This allows the town to account for the Estate's operations separate from the general fund in a business-like model funded by receipts.

Using an enterprise fund is a distinction purely for accounting purposes as a method to identify total services costs for a fee-based operation by maintaining separate accounting and financial reporting. Revenues and expenses of the service are segregated in the enterprise fund with corresponding financial statements separate from all other governmental activities. Investment earnings and any operating surplus are retained in the enterprise fund. As this is simply an accounting function there is no requirement for associated cash to be maintained in separate bank accounts. The cash, under the custody of the treasurer, may be pooled with cash from other funds for investment purposes. The requirement is cash must be accounted for separately in the general ledger and the accountant must allocate the earned interest on the pooled cash proportionally to the enterprise fund. Through the reconciliation process, the accountant and treasurer verify all cash is accounted for, with the general ledger maintaining the true fund balance.

As with the general fund, the budget for the enterprise fund must be balanced with revenues and other available funds to cover the total budgeted service costs. This can be accomplished by the enterprise being self-sufficient, meaning the estimated revenues generated by the Estate are sufficient to cover the cost of the services, or alternatively, a town general fund subsidy may be

budgeted for signifying that the enterprise's budgeted revenues are below the cost of services. When budgeting for an enterprise fund, local officials should follow the same guidelines and procedures established for the general fund budget adopted policies and be mindful of the community's priorities. Those policies and priorities frame the decisions on whether to subsidize an enterprise fund, and if so, at what level and from what source.

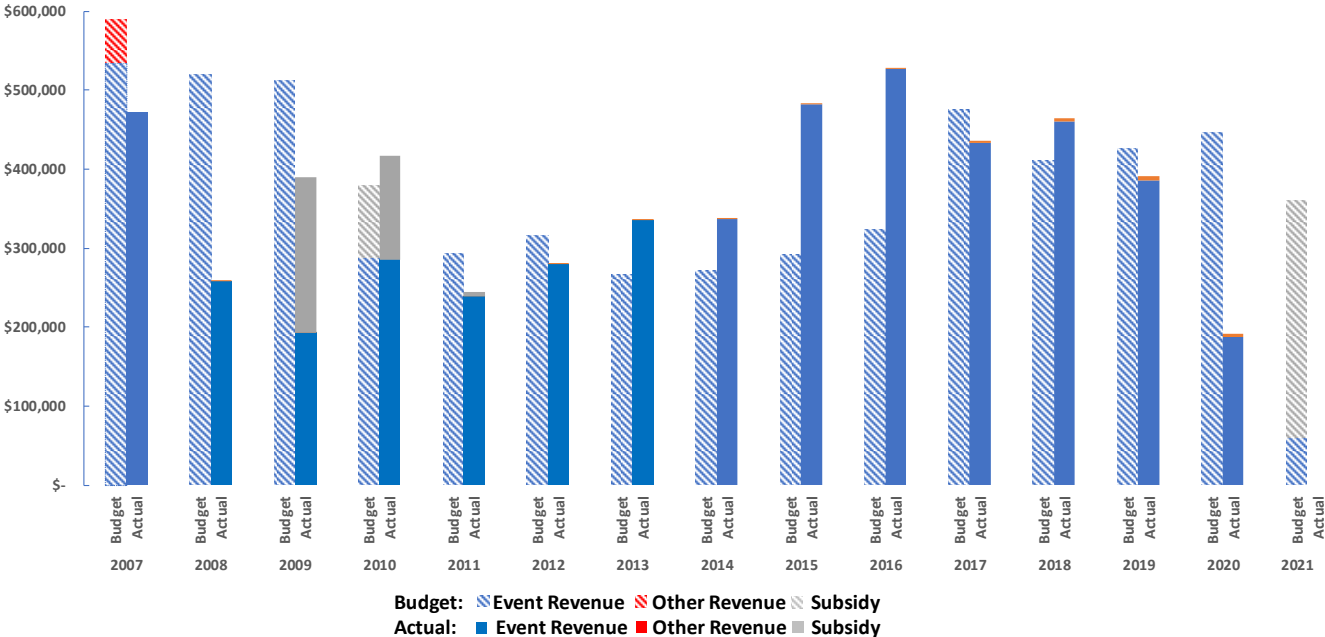
Due to the nature of recreation-based enterprise funds, such as golf courses, pools, and event venues such as the Estate, unforeseen events and related economic conditions can disrupt the revenue stream. This necessitates use of enterprise reserves (i.e., retained earnings or stabilization) or other general fund subsidies, including the tax levy, free cash, or other general fund reserves to balance the enterprise's budget. In all cases, the estimated revenue derived from the enterprise activity, including user charges, sales, or fees, and any subsidy, must be supported by documentation proving the revenue is enough to cover the estimated expenses. If DLS feels that estimated revenue is in excess of what is reasonable, the tax rate will not be approved.

Revenues

As shown the table below, the Estate enterprise has a varied history of actual revenues exceeding estimates. Beginning in March 2020, the Stevens Estate, solely dependent on event sales, was hit hard by the COVID-19 pandemic, basically shuttering the doors for all events for several months and cutting off any revenue stream. Now, almost a year later, events at the Estate are still limited in type and size, creating a very high probability that the estimated revenues required to fund the FY2021 budget as passed by town meeting would not materialize, presenting the town with few options. The decision was made to balance the budget with a transfer from the general stabilization fund, allowed without town meeting approval due to COVID-19¹. Although not required, it is expected that the enterprise will reimburse the stabilization fund at a future town meeting with previously appropriated unspent capital, retained earnings, and reduced current year spending.

¹ DLS Bulletin 2020-8: [An Act Relative to Municipal Governance During the COVID-19 Emergency](#)

Stevens Estate at Osgood Hill Budget vs. Actual Revenue

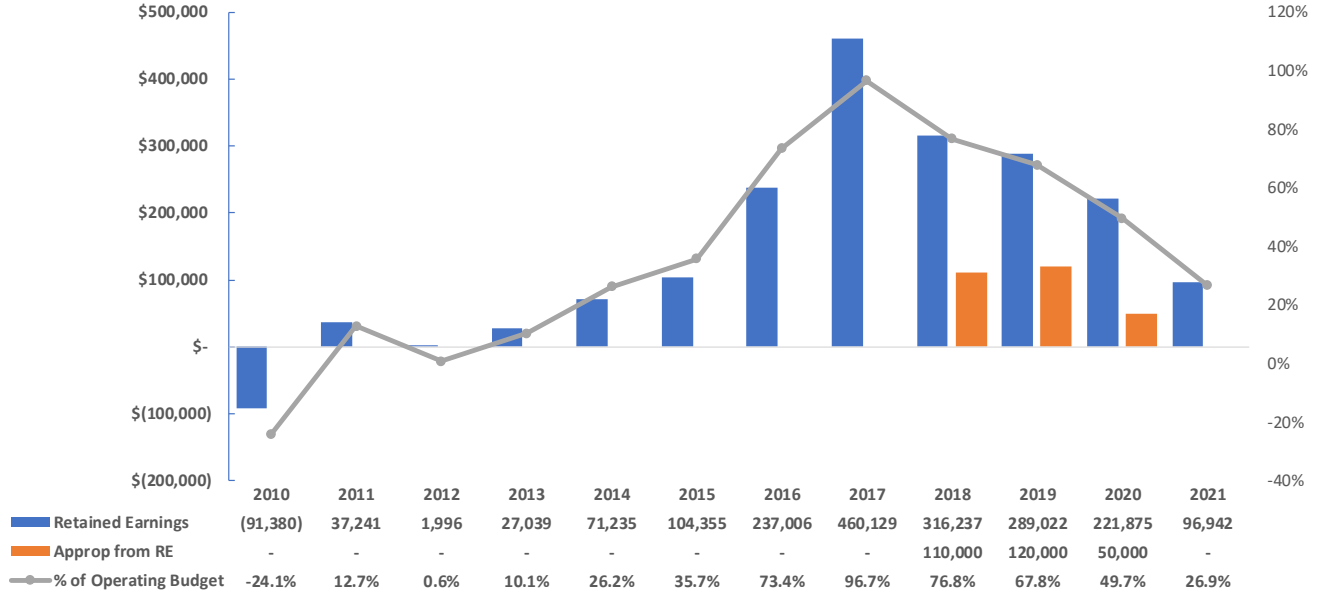


Note the budgeted revenue does not include retained earnings appropriated for capital expenditures.

Retained Earnings

Retained earnings, or net unrestricted assets, are operating surpluses and serve as the enterprise’s reserve fund. Like free cash, they must be appropriated at town meeting and can be used for any lawful purpose within the enterprise fund. Through FY2016, revenue exceeded operating expenses leading to a significant increase in retained earnings, which were then used for capital purchases. Not unexpectedly, FY2020 revenues were less than estimated resulting in the lowest level of retained earnings in several years.

Retained Earnings

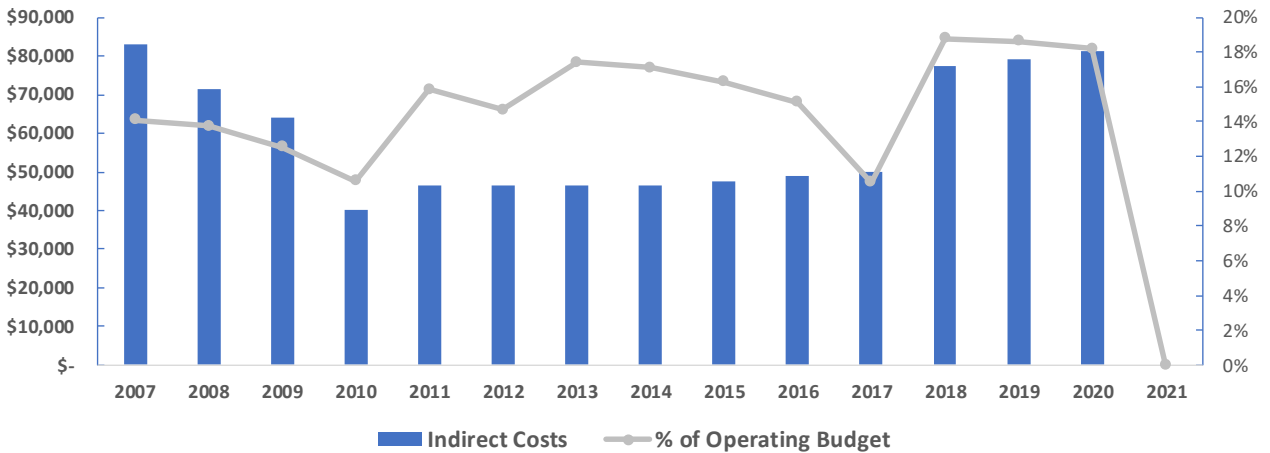


Indirect Costs

North Andover’s three enterprise funds (Water, Sewer, and Stevens Estate) participate in employee benefits and insurances and receive support from associated administrative services provided by other town departments, which come at a cost. Since enterprise funds have a revenue stream distinct from the general fund, these costs, labeled as indirect costs, are not accounted for in the general fund budget; but instead a portion of enterprise revenues are transferred to the general fund to cover them.

As a part of the annual budget process, the finance director identifies departments providing support to these enterprises and calculates the cost allocations of any indirect expenses for each enterprise. The qualifying costs include salaries, expenses, annual audit, employee benefits, insurances, retirement, and Medicare. These amounts are included as an expense in the enterprise fund budgets and as a revenue source (operating transfers) for the general fund budget. For the Stevens Estate, these amounts have averaged just over 15% of its budget for the last several years. Due to the decrease in revenue for the fund in FY2020, the indirect charges for FY2021 are being absorbed by the general fund.

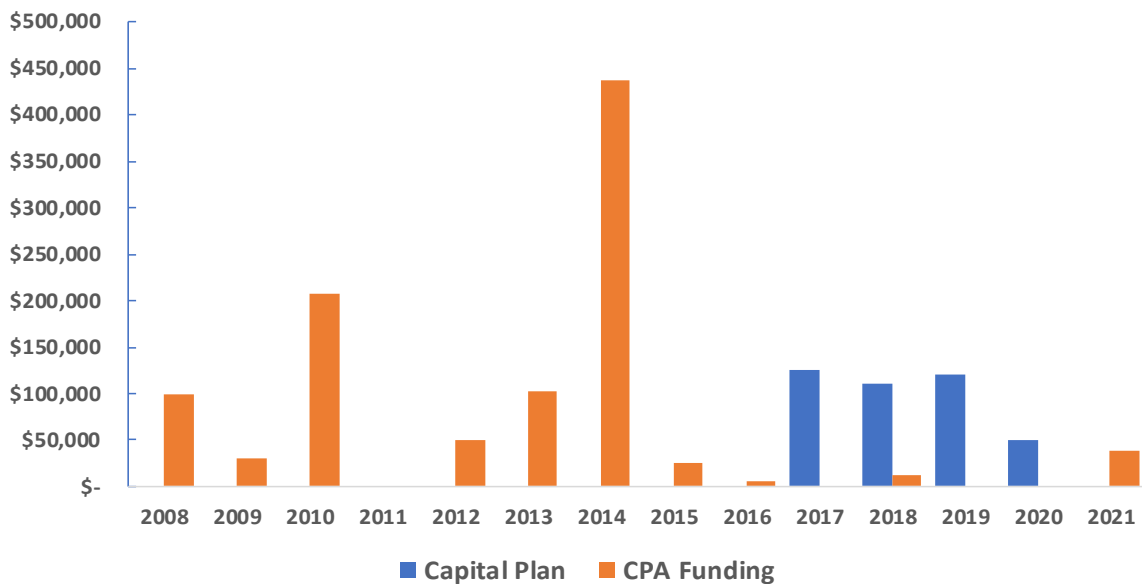
Indirect Costs as a Percentage of Operating Budget



Capital Investment

Capital planning for the Stevens Estate is incorporated in the town’s Capital Improvement Program with capital requests evaluated, ranked, and reported in the five-year Capital Improvement Plan. The town manager recommends a proposed capital plan to the board of selectmen and finance committee for adoption, which forms the capital article for town meeting authorization. The primary source of capital funding for Estate projects through the CIP are retained earnings. However as a historical site with recreational grounds, the property is eligible for funding through the town’s community preservation program. Since its inception, \$1.9 million in community preservation funds have also supported the Stevens Estate capital needs.

Capital Funding

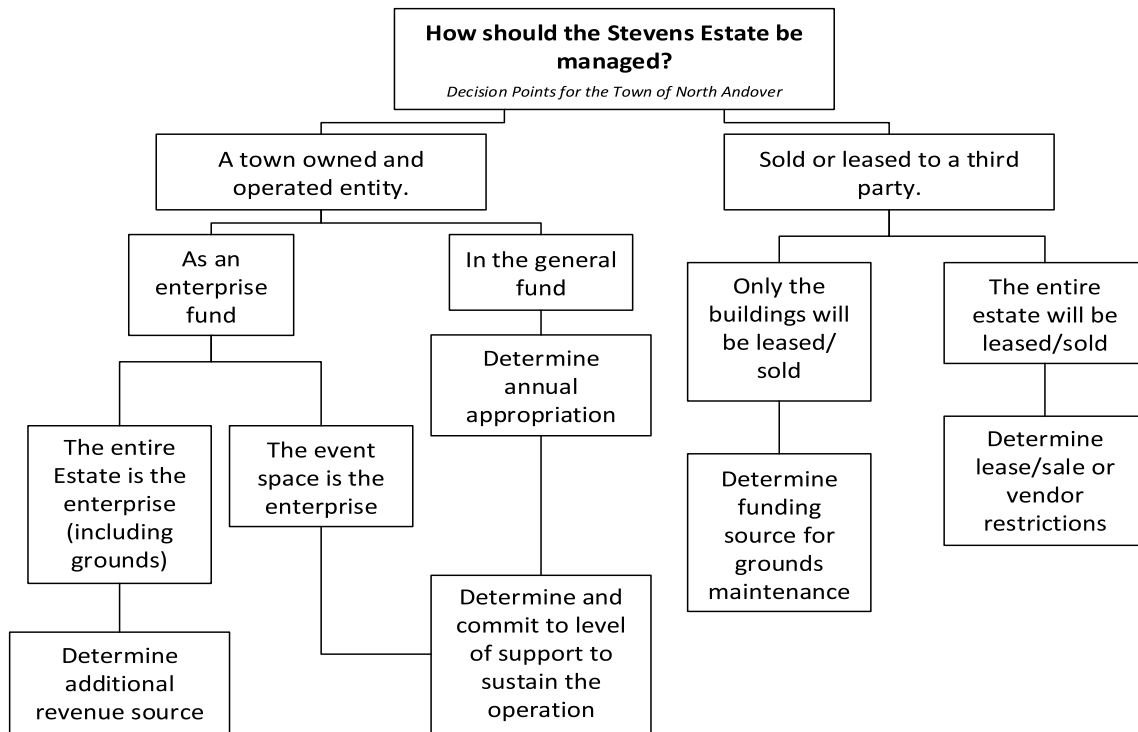


SUMMARY

Our review of the financial documents regarding the Stevens Estate (e.g., audit, tax rate, retained earnings calculations) revealed the enterprise fund accounting to be consistent with DLS guidelines and general accounting practices, including segregation of funds identified for capital purposes. Furthermore, we found that the annual budget document clearly presents the Estate's story: finances, accomplishments, and challenges. In our discussions with North Andover personnel, it was evident that the Estate is a valued town asset with dedicated caretakers. However, as already known and debated, there are critical issues facing the town in its management of the Estate:

- A revenue stream with an uncertain future and unable to cover required expenses
- Dwindling retained earnings
- Unsustainable indirect costs
- Mounting capital needs for the mansion and outbuildings
- Ambivalent staffing levels
- Communication breakdown between the town and trustees, leading to a level of mistrust and disconnect between the town and Estate Trustees/staff
- Competing perspectives on the future of the Estate and the town's role

To assist the town with a framework the future management of the Stevens Estate, we offer the following decision points and action items:



As displayed above, town should decide collectively whether the Estate will be owned and operated by the town or if it will be sold or leased to a third party. The town is currently planning to issue a request for proposal for a non-profit entity to manage the Estate. Even still, the town will need to decide if part or all of the Estate will be leased or sold and make clear what restrictions on use or development of the property exist.

The town could also decide to continue to own and operate the entire Estate. If so, the town will need to determine how to continue classifying the Estate as an enterprise, and how to subsidize its operations or an annual appropriation necessary to sustain it. A revenue source subject to much discussion is the cell tower on the grounds of the Estate which generates roughly \$100,000 in revenue annually. Per Massachusetts General Law, the revenue is credited directly to the town’s general fund, however through the use of a special purpose stabilization fund², all or a portion of these revenues may be dedicated for Stevens Estate purposes. In addition, a long-term staffing strategy should also be included in any determination regarding a financial commitment to sustain the Estate’s operations. These are just two examples of decisions the town must make collectively if its current role with the Estate continues.

²DLS Informational Guideline Releases 17-20: [Stabilization Funds](#)

In either case, we would encourage the town to consider what part of the Estate they consider to be the “enterprise”—should the enterprise include only the revenue generating portion of the Estate or all of its buildings and the entire 154-acre grounds? We think this will help guide the decision-making process outlined in the above chart.

ESTATE TRUSTEES OF OSGOOD HILL

At the time of the Town’s purchase of the Estate, a Board of Trustees known as the Estate Trustees of Osgood Hill was also established. Historically, there has been disagreement between the town and Trustees about the role each have in oversight and management of the Estate. Over the years, this and other disagreements have led to a somewhat contentious relationship between the Trustees and town officials. In 2019, the town issued a request for proposal, hoping to contract an outside vendor to manage the Estate. Before the RFP was issued, the Trustees had not been consulted and only found out about its issuance after the fact. However, despite not requiring such a vote, the final contract was disapproved by a vote of the town meeting. As a result, the town did not move forward on a contract with the selected vendor.

In September 2020, the town received a legal opinion from KP Law, P.C. that the town’s Board of Selectmen has ultimate authority over the Estate, while the Trustees’ role is advisory in nature. Currently, the town is in the process of drafting a new request for proposal, which will give additional consideration for non-profit vendors. The draft is being written in coordination with the Trustees. It is TAB’s understanding that the enterprise fund would be dissolved should an agreement pass.

Regardless of their legal status, the Town should consider formalizing the Trustees’ role in the future, whether it be advisory or authoritative in nature. Doing so would help resolve any disagreement about their role and would lay the groundwork for a formalized and productive relationship between the Trustees and town staff.

COMMUNICATION AMONGST STAFF

As mentioned throughout this report, TAB cannot stress enough the need for improved lines of communication between the town’s management and finance staff, Estate staff, and the Estate’s Board of Trustees, regardless of the role the Town decides they should have in the future.

Formalizing certain practices and procedures, such as indirect cost allocation and the Estate’s revenues and expenditures, into transparent policies should assist with opening the lines of communication. However, from our perspective, the relationship between the town and the Trustees, and to some degree, the public, has been strained by a lack of communication by the town

in general. TAB recognizes that town staff and the Trustees have made recent strides to improve this working relationship, and we feel that implementing this and the other recommendations will further complement that effort.

ADOPT A FORMAL ENTERPRISE FUND POLICY

We recommend the town adopt an enterprise fund policy that formalizes funding methodologies and rate review processes, defines the target level and permitted uses of retained earnings, and lays out capital spending strategies. The policy should also identify direct costs and the formula for calculation and reimbursement to the general fund of indirect costs such as health insurance, pension, other insurances, debt, and administrative overhead.

Indirect cost levels have been an area of disconnect between the town and Trustees. The town uses a longstanding formula to calculate indirect costs charged to the enterprise. Per the Trustees, the formula has not been shared, leading to confusion about how the town calculates the amounts. The town maintains that it collaborates with the Trustees and staff in the budget processes, including the sharing the indirect calculation. This is a prime example of how a formal policy could improve communication and transparency between the town and the Trustees and enhance their working relationship.

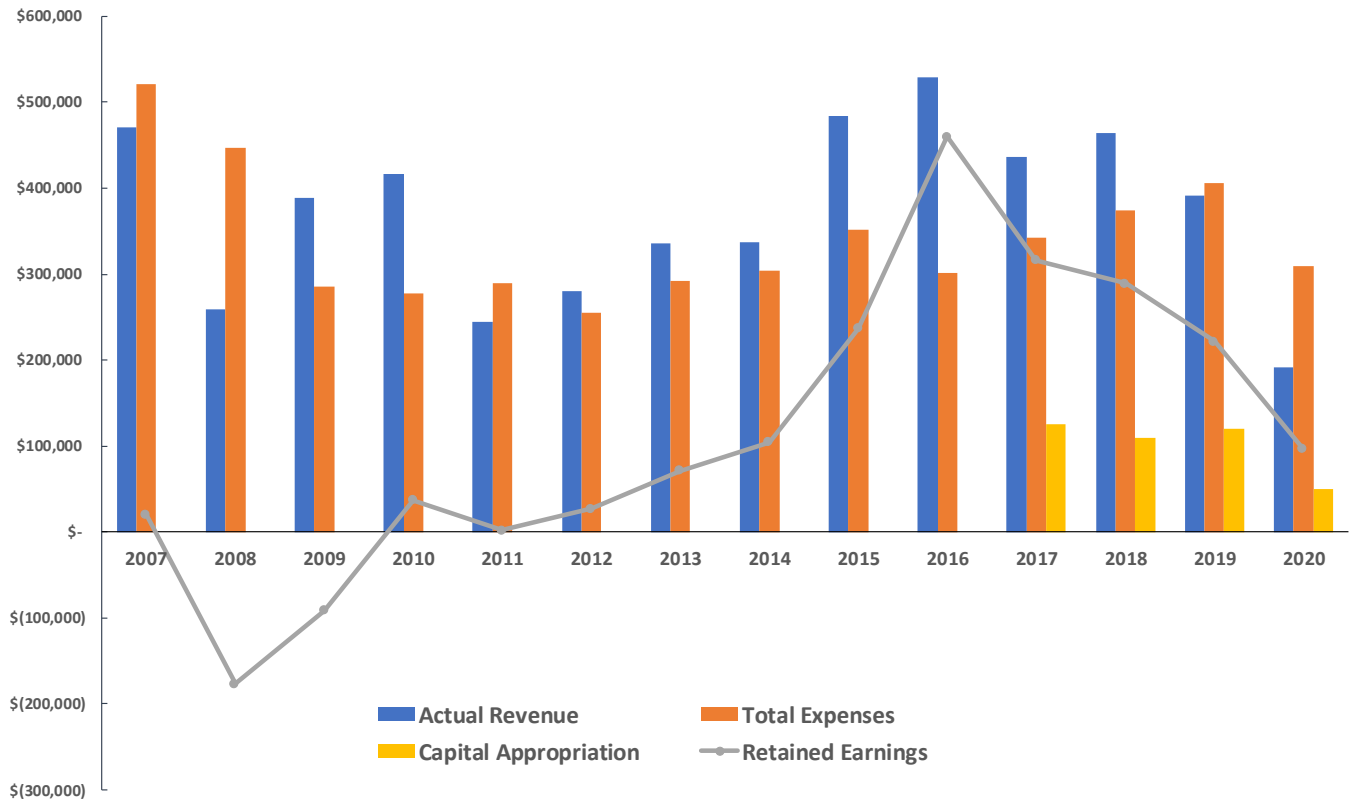
In addition, the policy could establish the process by which the venue's event rates are evaluated annually, and how revenues and expenditures are forecasted for the coming year. TAB's understanding is that the Director of the Estate proposes rates for the upcoming event season to the Trustees, and from there they are approved by the Community and Economic Development Director. While it may be appropriate for the Town to rely on professional staff with related expertise to determine proper rates to charge, this process should nonetheless be formalized in policy. We strongly encourage a formal policy establishing a built-out forecasting process that includes the Estate's Director. Once projections by the Town Accountant/Finance Director are provided, we encourage them to be accompanied by any applicable commentary to provide background on their reasoning.

Depending on how the town decides to manage the Estate's outbuildings, the policy should also address the use of facilities by its other departments. As previously mentioned, one of the town's public safety departments uses the carriage house to store equipment. The policy would outline and formalize any use of the Estate's facilities by other departments, including fees collected for such use.

The policy for indirect costs should include the other two enterprise funds, be fair, consistent and reviewed with the department heads or directors annually. We have included a sample indirect cost allocation policy to this memorandum. Adopting such a policy adheres to financial best practice and will enhance transparency and communication between all involved parties.

APPENDIX:

STEVENS ESTATE AS OSGOOD HILL FINANCES AT A GLANCE



STAFFING LEVELS

Personnel	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Director	1	1	1	1	1	1	1	1	1	1
Event/Bar Manager	0	0	0	0	0	0	0.8	1	1	0
Admin Assist	0	0	0	0	0	0.3	0.3	0.3	0.3	0
Total	1	1	1	1	1	1.3	2.1	2.3	2.3	1

COMMUNITY PRESERVATION PROJECTS AND FUNDING

Fiscal Year	Category	Amount	Project
2002	Historic	\$ 260,000	Replace water main/Install sprinkler system
2004	Historic	\$ 319,000	Upgrade fire system
2006	Historic	\$ 70,000	Rehab Plant House
2006	Historic	\$ 96,500	Restore Gate House
2008	Historic	\$ 95,000	Restore interior to historical character
2008	Historic	\$ 100,000	Replace windows
2009	Historic	\$ 30,400	Restore windows (phase 2)
2010	Historic	\$ 207,180	Restore Gate House (phase 2)
2012	Historic	\$ 50,000	Develop Master Plan for restoration and preservati
2013	Historic	\$ 103,100	Refurbish exterior walls
2014	Historic	\$ 436,950	Replace roof
2015	Historic	\$ 25,100	Stained glass restoration
2016	Historic	\$ 50,000	Restore/renovate bathrooms
2018	Recreation	\$ 12,500	Create walking trails on Estate grounds
2021	Historic	\$ 38,600	Restore light fixtures
	Total	\$ 1,894,330	

SAMPLE INDIRECT COST ALLOCATION POLICY

PURPOSE

To apportion all the indirect costs associated with the Town’s three enterprise operations in an equitable manner that reflects their true shared costs, this policy provides guidelines for calculating and allocating those costs.

Under authority established in [M.G.L. c. 44 § 53F½](#), the sewer, water, and Stevens Estate operations’ accounting transactions are recorded and managed separately from the general fund. Their revenues and expenses are not commingled with those of any other governmental activity, and consequently there are separate financial statements for each. Consolidating each enterprise program’s direct and indirect costs, debt service, and capital expenditures into its own distinct, segregated fund allows the Town to demonstrate to the public the true, total cost of providing the particular service.

APPLICABILITY

Applies to:	<ul style="list-style-type: none">▪ Town Manager, Finance Director, Public Works Director, and Stevens Estate Director▪ Treasurer/ Collector in the related administrative functions▪ Board of Selectmen in their budget analysis and decision-making responsibilities, and capacity as water and sewer commissioners
Scope:	<ul style="list-style-type: none">▪ Identifying cost categories and methodologies for determining indirect cost payments from enterprise fund departments to the general fund

POLICY

As part of the annual budget process, the Finance Director will calculate the indirect costs to the general fund of the three enterprise operations and review the calculations with the Town Manager, Public Works Director, and Stevens Estate Director. Based on the results, the Finance Director will record transfers between the relevant funds by [June 15] each year. The Finance Director will maintain written procedures detailing the costs and their calculation methodologies.

A. Cost Categories

The calculation of indirect costs will take into account each department’s personnel expenses budgeted in the general fund. Also accounted for will be certain administrative services performed on behalf of the enterprise departments by other departments, namely:

- Accounts payable, payroll, and general ledger services provided by the Accounting Department
- Collections, banking, investment, tax title, benefits, and payroll services provided by the Treasurer/ Collector Department
- Personnel administration services provided by the Town Manager Department

For these expenses and those listed below, the Finance Director will calculate indirect costs based on the most recent fiscal year’s appropriations and using either the actual, proportional, estimated support, or transactional methodology, as each is outlined in Section B.

The following expenses will be included in the calculations for the Water, Sewer, and Stevens Estate departments:

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

B. Explanation of Calculation Methodologies

1. **Actual cost**, as the term implies, involves the identification of specific costs attributable to the enterprise based on documented schedules or bills payable, including debt service and insurance premiums.
2. The **proportional** method is the calculation of each operation's department net-of-debt budget as percentage of the total combined net-of-debt budget of that operation and the general fund. The resulting percentage is then applied against the total budget (including employee benefits) of each town department that provides support to that given operation or against the total cost of the specific type of expenditure.
3. A department or official may be able to provide a reasonable **estimate of support** (i.e., an estimate of the average time spent to support a particular service). For example, the Finance Director estimates spending an average of two hours weekly, or 10 percent of her time, on water-related activities (e.g., creating warrants, bookkeeping). 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.

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

Any department's or official's expenses related to enterprise activities are charged directly to the respective budgets.

4. The **transaction-based** method is calculated based on the number of transactions attributed to a service as a percentage of the whole. An example would be the total water bill collections processed by the Treasurer/Collector's office as a percentage of the total number of collections of all types processed by that office. This percentage is applied against the Treasurer/Collector's total budget, including health and life insurance, Medicare, retirement, and any workers' compensation attributable to the department.

$$\frac{\text{Number of enterprise-related transactions}}{\text{Total number of all like transactions processed by the non-enterprise department}} \times \text{Total budget plus benefits of the department processing the enterprise transactions} = \text{Indirect Departmental Salaries}$$

C. Calculations by Cost Category

[This section should be reviewed and updated when calculation methodologies are established for all categories.]

1. Health and Life Insurances

Costs for health and life insurances will be calculated using the actual method by adding up the actual amounts paid by the Town for the participating enterprise employees during the current fiscal year.

2. Medicare

The Town's Medicare cost represents the employer match of the Medicare tax charged to employees hired after April 1, 1986. Using the actual cost method and based on employee W-2s, the costs will be calculated as 1.45% of the total gross wages paid by the Town on behalf of each eligible enterprise fund employee during the preceding calendar (not fiscal) year.

3. Retirement

Indirect pension costs will be calculated using the proportional method. The Town's total annual contributory retirement assessment is multiplied by the respective proportion of each of the total enterprise fund department employee's compensation to the total employee compensation as reported to the Public Employee Retirement Administration Commission (PERAC). Note: PERAC's calculation for the current fiscal year is based on the number of members and compensation as of September 30 of the previous fiscal year (i.e. the FY2022 appropriation is based on membership data and compensation as of September 30, 2020).

4. Audit

External audit costs will be based on the proportional method. The enterprise fund departments shall each pay the proportion of the cost of the Town's annual independent audit based on effort of the Town's independent auditor.

5. Administrative Services

The indirect costs for enterprise-related administrative services performed by the Accounting, Treasurer/Collector, and Town Manager Departments will be calculated using the estimate of support method. It will be based on each department's annual estimate of the time required to perform the services for the particular department.

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 [date].