

To: Board of Trustees

From: Jessica Flintoft, Scio Township Clerk

Date: March 21, 2026

Re: Cost Allocation Plan: Methodology and Implementation for FYE27

Purpose

Scio Township provides diverse services to our community: protection of open space, water and sewer services, tax collection, fire services, parks maintenance, elections administration, to name a few. Each service has both a direct cost as well as an indirect cost. Indirect costs are real costs of providing the service, such the cost of information technology, facilities and grounds maintenance, and the costs of cash receipting, accounting, and auditing. Some of these indirect costs are covered by the tax collection 1% fee assessed under MCL211.44(3), while most are borne by the General Fund year after year. The purpose of the Cost Allocation Plan is to define the indirect costs, set a legally justifiable basis for allocation of those costs, and use a standard method for budgeting these costs, and recovering these costs throughout the year.¹

Funds to which Cost Allocation Plan is Applied

The Cost Allocation Plan is applied to non-General Fund active funds, to recoup indirect costs incurred by the General Fund (Fund 101) in the course of carrying out the activities of another Fund. The Cost Allocation Plan is not applied to Fiduciary Funds, e.g., OPEB Fund.

The Cost Allocation Plan is applied to all Governmental Funds and Proprietary Funds of the Township that are in the FYE27 Budget, with the following exceptions.

- Economic Development Corporation Fund (Fund 244) is excluded because it is a subcomponent unit that is inactive, but we are required to keep the fund open.
- Opioid Settlement Fund (Fund 284) is excluded because these funds were required to be established to record certain special revenue sources, but all activity is transferred out to other funds.
- Public Improvement Fund (Fund 445) is excluded because it is inactive, research has been completed, and the Clerk plans to bring a resolution in April 2026 to transfer fund balance and future state right of way revenue to the General Fund.
- The current funds for special assessments are excluded. These include the East Delhi Bridge Maintenance Fund (Fund 403), Township Revolving Fund (Fund 446)², 2016 Road SAD Projects (Fund 813), 2017 Road SAD Projects (Fund 814), 2019 Road SAD Projects (Fund 815), and 2020 SAD Road Projects (Fund 816). Until FYE25, the General Fund recovered indirect costs from these funds—in recent years through the Cost Allocation Plan, and prior to FYE22 without such a

¹ For background on the development of the Cost Allocation Plan, and how indirect costs were apportioned across funds in the years prior to implementation of the Cost Allocation Plan beginning in FYE22, see the Clerk's February 27, 2023 Memo on [Background to the Indirect Cost Allocation Plan](#).

² Once internal research is complete, I will propose the Township Board take appropriate steps to use the Revolving Fund, in accordance with the Uniform Chart of Accounts.

written plan. The Township relied on general authorizing language in each resolution establishing each Special Assessment District related to the recovery of indirect costs, believing the language to be authorizing. In April 2024, the Township Attorney issued a written legal opinion advising the Township that such language is not specific enough, and that any future Special Assessment District resolutions that are created should include authorization of each specific cost, e.g., postage or auditing, if the Township intends to recover any such cost.

The indirect costs incurred by these excepted funds are included in the calculation of the Cost Allocation Plan, but these excepted funds are not charged, so the General Fund continues to pay these costs.

Indirect Costs included in Cost Allocation Plan

Only five indirect costs incurred with General Fund monies are included in the Cost Allocation Plan:

- **101-191 Accounting:** accounting services provided by Finance staff and consultants, including accounts payable, accounts receivable, payroll, procurement monitoring, grants accounting, and all other accounting. Budgeted expenditures for Finance Director salary and benefits, contracted financial consultants (interim finance director services, actuarial consultant, administrative auditor), Finance Manager salary and benefits, and a portion of the Finance Assistant salary and benefits. Portion is estimated to be 60% for FYE27 to accounting activities, as rest of time is dedicated to utility billing activities covered by Water and Sewer Funds outside of this Plan.
- **101-191 Auditing:** auditing services provided by Township auditor for annual audit of all Township funds. Costs of single audit, if required, would be borne by Fund which had activity spurring requirement of a single audit, and is outside of this Plan.
- **101-228 Information Technology:** salary and benefits of IT staff, IT contractors, and all operating costs of managing IT for the Township. Major equipment costs are borne by Fund requiring the equipment. Cost of internet for Fire Station and Township Hall are excluded.
- **101-253 Treasurer:** a portion of the salary and benefits of Deputy Treasurer and treasury consultants; excludes salary and benefits of elected Treasurer. Portion is calculated at 32% for FYE27 based on portion of cash receipts related to collection of Township monies that are not covered by the 1% Administrative Fee. The Township is paid by LASA through separate agreement for the cash receipts collected on behalf of LASA.
- **101-265 Building and Grounds:** salary and benefits of Grounds Maintenance Custodian, and all operating and maintenance costs related to Township Hall. Applied to funds that have staff sited at Township Hall.

In future years, additional areas of indirect costs that the Board could appropriately consider for inclusion are:

- **101-172 Administrator:** costs related to Operations Director, Operations Manager, Administrative Clerk-General, for all funds of the Township.
- **101-270 Human Resources:** costs related to operating a human resources department, for those funds that support staff.

Which Funds incur which Indirect Costs

The following Funds are included in the Cost Allocation Plan, and incur the following indirect costs.

FUND	INDIRECT COSTS INCURRED BY THE GENERAL FUND	RECOVERED THROUGH CAP?
Fire (Fire Fund 206)	Accounting, Auditing, Information Technology	Yes
Parks and Pathways (Fund 208)	Accounting, Auditing, Information Technology, Building and Grounds	Yes
Public Transit (Fund 230)	Accounting, Auditing	Yes
Tree Mitigation (Fund 232)	Accounting, Auditing	Yes
Open Space (Fund 233)	Accounting	Yes ³
Economic Development Corporation (Fund 244)	Auditing	No
Opioid Settlement (Fund 284)	Auditing	No
Road or Bridge Special Assessment Funds East Delhi Bridge Maintenance Fund (Fund 403), Township wide Revolving Fund (Fund 446), 2016 Road SAD Projects (Fund 813), 2017 Road SAD Projects (Fund 814), 2019 Road SAD Projects (Fund 815), and 2020 SAD Road Projects (Fund 816)	Accounting, Auditing, Treasury	No
Sewer (Fund 590)	Accounting, Auditing, Information Technology, Treasury, Building and Grounds	Yes

³ Beginning in FYE26, the auditing costs are no longer included for the Cost Allocation Plan for the Open Space Fund. While Scio Township Code 16-319 provides supportive authority for the cost recovery of general fund costs, it does emphasize that these costs should be “devoted directly” to the Open Space Fund. While our Township Attorney and Interim Finance Director agree that it is not inappropriate to charge all the indirect costs to the Open Space Fund, the Interim Finance Director advises that audit costs are almost always considered indirect. In recognition of the “devoted directly” language of the Scio Township Code 16-319, beginning in FYE26 the indirect costs of auditing will not be charged to the Open Space Fund (Fund 233). Special thanks to Daryl Burkhard, LPC Member, for her research and advocacy on the Cost Allocation Plan.

Water (Fund 591)	Accounting, Auditing, Information Technology, Treasury, Building and Grounds	Yes
Loch Alpine Sanitary Authority of Webster and Scio Townships (LASA) Separate Entity and Set of Books	Accounts Payable, Cash Receipting, Server Maintenance	No ⁴

Method of Allocating Indirect Costs across Funds

The method of allocation has remained largely the same since implementation of the Cost Allocation Plan beginning in FYE22. The Plan was originally created by The WoodHill Group for FYE22, was verified by Maner Costerisan for FYE24, and has been reviewed by Plante Moran GAP with minor changes along the way. The Clerk prepares and maintains the Cost Allocation Plan, and plans to delegate this to the Finance Director beginning next year.

The bases of allocation are updated annually around calendar year end, to prepare the next fiscal year’s Cost Allocation Plan. Further each February, actual expenditures may be reviewed to true up the budgeted allocation to actuals, with adjustments in final proposed year end budget amendments. The method of allocation derives a proportionate share of indirect costs for each Fund by considering annual measures of the workload. The level of effort reflects how much of the indirect cost allocation unit is allocated across Funds.

INDIRECT COST ACTIVITY	INDIRECT COST ALLOCATION UNIT	LEVEL OF EFFORT	METHOD OF ALLOCATION
Accounting	Finance Director and Financial Consultants	75%	relative # of employees by Fund
Accounting	Finance Director and Financial Consultants	25%	relative amount of \$ spent, averaged over past 2 CYs by Fund
Accounting	Finance Manager	75%	relative amount of \$ spent, averaged over past 2 CYs by Fund
Accounting	Finance Manager	25%	relative # of employees by Fund
Accounting	60% of Finance Assistant	100%	relative # cash disbursements

⁴ Costs are recovered through separate agreement between LASA and Township.

Auditing	Annual Audit	100%	relative size of Unassigned fund balance
Information Technology	IT operating costs	100%	relative # of active IT users by Fund
Treasury	32% of Deputy Treasurer and Treasury Consultants	100%	relative # of cash receipts by Fund, excluding funds covered by 1% admin fee
Building and Grounds	all Township Hall operating costs	100%	relative # of square feet at Township Hall by Fund

Data Used for each Method of Allocation

The data sources and period of measurement (prior calendar year) are consistent year over year in the calculation of each allocation. When data that better reflects the distribution of indirect costs becomes available, it is used. The Cost Allocation workbook is maintained, and data sources are noted each year.

METHOD OF ALLOCATION	DATA SOURCES USED EACH YEAR
# of employees by Fund	Authorized Positions Sheet proposed for 3/24/26 (counting all authorized budgeted part time, full time, seasonal, appointed committee, and elected official positions).
relative amount of \$ spent, averaged over past 2 CYs, by Fund	General Ledger GL Activity Report Expenditures only for CY2024; CY2025 (less any cost allocation amounts).
# of cash disbursements by Fund	Accounts Payable GL Distribution Cash Disbursements for Posted Journal Entries for CY2024; CY2025.
relative size of unassigned fund balance	General Ledger Balance Sheet Report as of 12/31/25 (using absolute value of unassigned fund balance).
# of IT users by Fund	CTC produced Scio User Licensing report dated 3/20/26 (considering only those with active licenses).
# of cash receipts by Fund, excluding funds covered by 1% admin fee and LASA receipts	Cash Receipts Receipt Items Report post date within CY2025 (completed receipts only; no voided receipts; print totals only) and LASA Utility Billing Receipt Summary CY2025.
# of square feet at Township Hall, by Fund	Floor Plan area calculations dated 02/17/25.