

Date: August 31, 2009
To: Board of Selectmen cc: Fred Welch
From: Mike Schwotzer
Subject: Explanation of Hampton's Balance Sheet

This explanation/analysis of Hampton's Balance Sheet is in response to Selectman Nichol's email of August 15th. That correspondence contained three "items of particular interest" and they are addressed below.

A balance sheet has three types of accounts: Assets (page 1); Liabilities and Fund Balances (page 2); listing their balances at a specific time (shown are year-end '07 & '08). Please note that the total of the assets equals the total of combining liabilities and fund balances ($A = L + FB$). Being a municipality, there are multiple funds (General, Permanent, Other, Special Revenue and Capital Projects) but it is the **General Fund** that contains the revenues and expenses that I report on every month.

To me, the most important numbers on the balance sheet relate to cash (General Fund only). This leads to the eternal question – "Do we have enough?" with the simple answer always being "No!" The analysis below illustrates my point.

Cash - 12/08	13,097,625
Taxes Receivable	3,577,195
Income YTD 6/30/09	2,666,265
Total Avail:	19,341,085
Payable to Schools	(12,575,919)
Dept Exp YTD 6/30/09	(11,503,933)
Potential borrowing:	(4,738,767)

This cycle repeats again in the second half of the year. If property tax bills are not paid timely, the need to borrow (TANs) increases with the proviso that the Notes must be repaid by December 31st.

The third section of the balance sheet is the Fund Balances and Mr. Nichols' area of interest / request for explanation.

First question: \$1,198,709 increase in the Undesignated General Fund balance (UGFB) from \$1,719,672 at the end of 2007 to \$2,918,381 at the end of 2008. I would also like some background info related to DRA recommendations for Municipal reserves.

I would refer to page 3 which shows that during '08, the Town received \$440k more in income and spent \$758k less in expenses which caused the \$1.2M increase. The major categories are listed and are measured against the approved budget. The Tax Rate is set using the same budget minus a revised estimate of the year end income.

The next page (DRA - Budgetary Fund Balance Retention) shows that the current recommendation is to keep between 8% and 17% of your total tax liability in the UGFB or between \$4.4 and \$9.4M. If any of the UGFB (currently \$2.9M) were used to reduce the tax rate, less taxes would be billed which means less money will be collected resulting in the need to borrow more TANs earlier, resulting in additional interest expense.

Second question: \$ 931,447 increase in the Undesignated Special Revenue Funds balance from \$1,321,012 at the end of 2007 to \$2,251,459 at the end of 2008.

When researching the answer, I found that the original '08 balance included \$1,024,094 that belonged in the "Reserved for Special Purposes". When properly presented (see page 2), the '08 activity in the Special Revenue Funds actually was \$(92,647), or a negligible amount.

Third question: \$728,106 increase in the Capital Projects Funds balance from \$(327,087) at the end of 2007 to \$401,019 at the end of 2008

The analysis on Page 4 includes the \$570k Reserve for Encumbrances – Cap Proj in its beginning '07 fund balance, for revised balance of \$243k, with the increase then being \$158k. This increase was made up of debt being issued at \$908k and costs paid out at \$(750k). The balance in the Beach Infrastructure account is being held pending a final decision if any additional / final work is still necessary at the Beach.

Town of Hampton

Balance Sheet Analysis - 2007 vs 2008

Unreserved / Undesignated Fund Balances

Beginning Balance - 12/31/07

Income -
More / (Less)

Expense - Less
/ (More)

Notes

Balance

1,719,672

Property Taxes / Interest & Penalties 276,368 Additional \$175k for abatements

Licenses / permits (149,087) Motor vehicle

Grants 145,222 FEMA - unanticipated

Departmental income 62,885

Miscellaneous 28,360

Trust Funds 76,653

General Gov't 389,567 Insurances

Public Safety 28,766

Public Works 207,438

Health & Welfare 85,496 Direct assistance

Culture & Rec (6,999)

Debt 46,929 TAN

Capital Purchases 7,111

Ending Balance - 12/31/08

440,401

758,308

2,918,381

-

TOWN/CITY: HAMPTON

Auditor's Initials: JS Date: 10/16/08

OVERLAY – Amount Raised for Abatements

RSA 76:6 limits overlay to an amount not to exceed 5% of the net tax commitment for the municipality, its statewide enhanced education amount and local school tax, its share of the county budget, and village district(s), if any. For your municipality, we anticipate that limit will be:

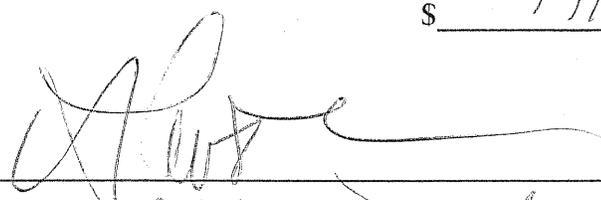
5% Limit \$ 2,484,765 Requested Amount \$ 425,000

BUDGETARY FUND BALANCE RETENTION

General guidelines have been established by the financial community regarding the amount of modified accrual budgetary unreserved fund balance to retain. The former recommendations were to retain between 5% and 10% of the municipality's appropriations, plus the statewide enhanced education amount and the local school net tax commitment, plus the county appropriation. The Government Finance Officers Assoc. suggests you retain between 8% and 17%. Based on our best available information, the suggested levels would be:

5% 2751450 8% 4402320 10% 5502901 17% 9354931

Your **budgetary unreserved fund balance** from the MS-5 is: \$ 1719672
The amount **voted** from "surplus" is: \$ Ø
The amount used for RSA 32:11 **emergency** appropriation is: \$ Ø
The amount you wish to use to **set tax rate**: \$ Ø
The amount you wish to **retain** is: \$ 1719672

Signature of town/city official: 
Title of town/city official: Finance Director

Town of Hampton						
Balance Sheet Analysis - 2007 vs 2008						
Capital Projects						
	Sewer Fac Update (Church St.)	Beach Infrastructure	Waste Water Treatment 06-07	Total Capital Funds		
Reserved for Encumbrances	-	-	570,251	570,251		570,251
Unreserved / Undesignated Fund Balances	(52,651)	295,815	(570,251)	(327,087)		(327,087)
Beginning Balance - 12/31/07	(52,651)	295,815	-	243,164		243,164
Misc. Revenues	4	-	-	4		4
Capital Outlays	-	(15,416)	(734,276)	(749,692)		(749,692)
Debt Issued	-	192,000	715,543	907,543		907,543
Ending Balance - 12/31/08	(52,647)	472,399	(18,733)	401,019		401,019
						-