

New Hampshire Association of Village Districts

Financial Strategies for Small Municipalities



**There are three major
components of a financial
strategy for a Village District**



- **The Annual Budget (BG)**
- **Special Funds (SF)**
- **The Fund Balance (FB)**



Budget (BG)

The Budget is established every year at the Annual Meeting. It consists of the Operating Budget plus any Special Warrant Articles.



Special Funds (SF) may consist of

- 1. Capital Reserve Funds**
- 2. Special Revenue Funds**
- 3. Trust Funds**



Fund Balance (FB)

Is often referred to as
'surplus' and is determined
by the following formula.



Cash in hand + AR

-

AP- Encumbered funds

=

Undesignated Fund Balance

AR = Accounts Receivable AP = Accounts Payable



**The recently introduced GASB 54
now requires the fund balance to
be more precisely accounted for
but does not alter the amount.**

(GASB = Government Accounting Standards Board)



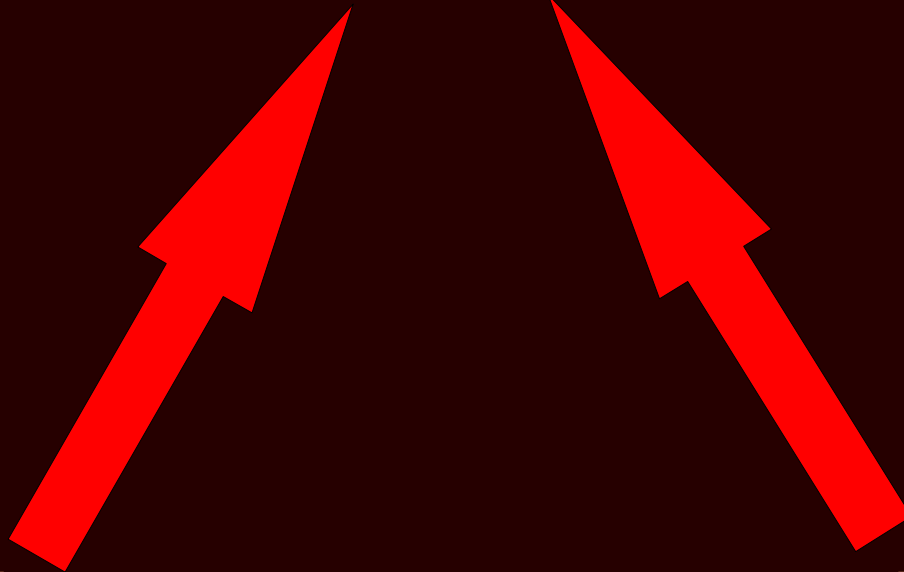
The Budget (e.g. Special Articles) may receive inputs-appropriations - from the Special Funds and/or from the Fund Balance.



BG

SF

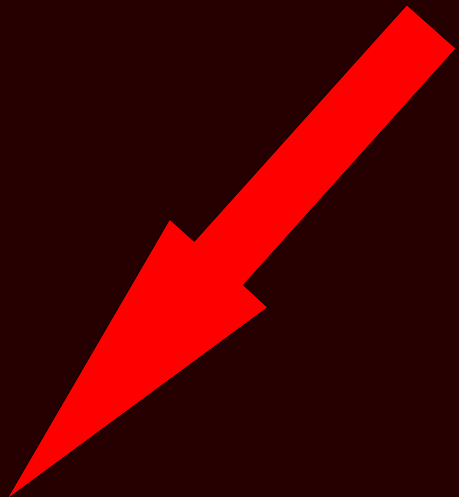
FB



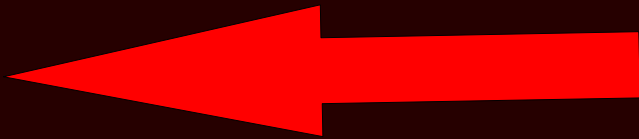
The Special Funds (SF) may receive inputs – appropriations - from the Budget (BG) and/or from the Fund Balance (FB).



BG



SF



FB



The Fund Balance (FB) may receive inputs from Budget (BG) savings or from the discontinuance of a Special Fund (SF).



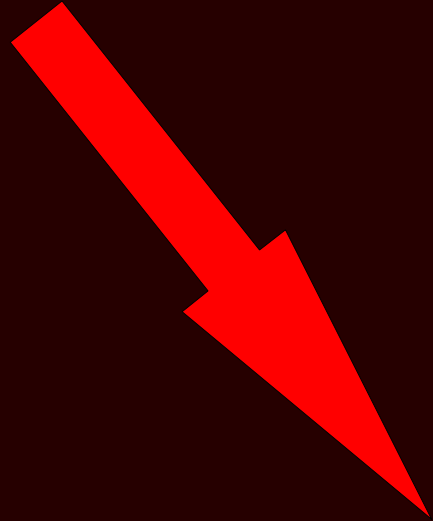
Any funds left over from the operating budget or from any special articles revert to the Fund Balance.



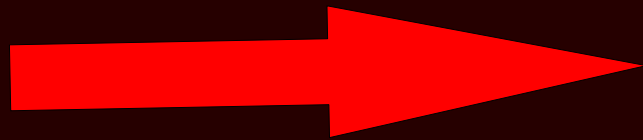
Any funds left in a Capital Reserve Fund that is discontinued revert automatically (i.e. by statute) to the Fund Balance.



BG



SF



FB



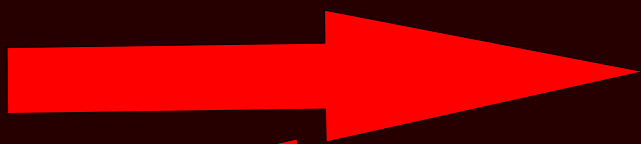
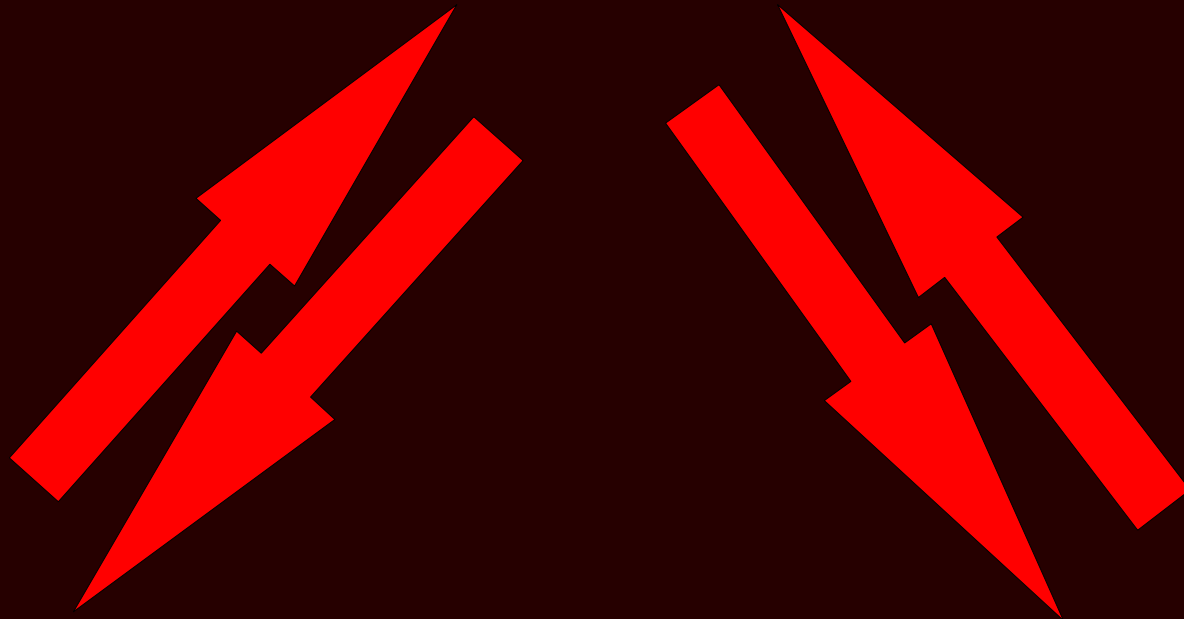
Although not germane to the present discussion, the Fund Balance (FB) may also be boosted by greater than anticipated income, income from unanticipated sources and depleted by allocations to offset taxes.



BG

SF

FB



The relationship between these three components and how they change with time help determine the financial health or “wellness” of a community.



Any financial strategy has to address at least three issues.

- 1. The Short Term**
- 2. The Long Term**
- 3. The Unexpected**



The Budget is concerned primarily with the immediate - the short term - needs of the municipality with at least one caveat -



The amount appropriated to the Capital Reserve Funds may be a reflection of long term planning.



Similarly, the amount being withdrawn from the Capital Reserve Funds may be a reflection of long term planning.



**It is also possible that
withdrawals have nothing to
do with long term planning at
all!**



In general, the Capital Reserve Funds, Trust Funds and Special Revenue Funds are usually focused on long term planning such as capital improvement projects.



**The amount of the Fund Balance
is crucial in terms of being able
to deal with the unexpected.**



For example, it may be an important element in whether the Dept of Revenue Administration will approve an emergency appropriation.



How much is enough is a local decision. The recommendation from NHGFOA is that the Fund Balance be between 8 and 17% of the Gross Budget but many communities opt for a higher percentage.

(NHGFOA = NH Government Finance Officers Association)



The number of Special Funds and amount of money in them is also a local decision but a number of Village Districts do not have sufficient reserves to avoid continuing increases in either service or tax rates.



The key objective in all of this is to generate a financial situation where there is some flexibility for the governing body.



What are the advantages of having financial flexibility on hand?



It enables the needs of the community to be addressed in a systematic manner.



Capital improvement projects can be planned and even timed for when the interest rates are low and equipment is looking for work.



**The unexpected becomes a
component of the planning
process.**



How do you improve the financial health of a community?



Realistic budgets and fee structures.

Adequate capital reserves.

Maintain a large fund balance.



Have a plan for dealing with any budget surplus or budget shortfall.

Explore outside sources of income.



There is much more to the financial well being of Village District than the operating budget, the tax rate and/or the water / sewer rates.



The Dynamic Trio



BG

SF

FB

