

**TOWN OF NEW HAMPTON, NEW HAMPSHIRE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDING DECEMBER 31, 2004**

The following is a discussion and analysis of the financial activities of the Town of New Hampton, New Hampshire for the year ending December 31, 2004. Readers are encouraged to consider the information presented here in conjunction with the Town's financial statements.

This discussion and analysis provides limited comparisons to prior years as this the first year the Town has implemented the new reporting provisions of the Governmental Accounting Standards Board's Statement No. 34 (GASB 34). However, in future years, comparisons will be more comprehensive and will go further in explaining the Town's financial position and changes in financial position.

Responsibility for both the accuracy of the data, and the completeness and fairness of this presentation (including all disclosures) rests with management. To the best of our knowledge and belief, the data contained herein is accurate in all material respects. This data is reported in a manner designed to fairly present the Town's financial position, and the result of operations of the various funds of the Town. All disclosures necessary to enable the reader to gain an accurate understanding of the Town's financial activities have been included.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements include three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to most private-sector companies.

The **Statement of Net Assets** presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The **Statement of Activities** presents information showing how the Town's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash

flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future periods (such as uncollected taxes and earned but unused vacation leave).

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds: Most of the basic services provided by the Town are financed through governmental funds. Unlike the government-wide financial statements, the governmental fund financial statements report using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between the governmental activities statement of net assets and statement of activities.

Fiduciary funds are used to account for resources held for the benefit of parties outside of the Town government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs. The Town's fiduciary funds include capital reserve funds held for the New Hampton Village Precinct and Private-Purpose Funds held for cemeteries and scholarships.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements.

Required Supplementary Information

The basic financial statements and accompanying notes are followed by a section of required supplementary information. This section includes a budgetary comparison schedule for the Town's major governmental funds and includes a reconciliation between

the reported activity of the revenues, expenditures and operating transfers for budgetary purposes (Schedule 1) and the activity as presented in the governmental fund financial statements (Exhibit D). The Town's only major governmental fund for 2004 is the General Fund.

Other Supplementary Information

Other supplementary information includes combining financial statements for non-major governmental funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

The Town's net assets totaled \$1,903,798 at the end of 2004, a decrease of \$109,524 when compared to the end of the previous year. This decrease is due largely to the use of a portion of the beginning fund balance to reduce the tax rate.

	<u>Governmental Activities</u>
Current assets	\$2,812,540
Capital assets	<u>801,516</u>
Total assets	\$3,614,056
Current liabilities	\$1,363,830
Non-Current liabilities	<u>346,428</u>
Total Liabilities	\$1,710,258
Net assets:	
Invested in capital assets, net of related debt	\$ 801,516
Restricted	838,611
Unrestricted	<u>263,671</u>
Total Net Assets	\$1,903,798

One of the largest portions of the Town's net assets reflects its investment in capital assets such as land, buildings, and equipment less any related outstanding debt used to acquire those assets. \$828,538 is restricted for subsequent years' expenditures from the Capital Reserve Funds.

Statement of Activities

The Town's net assets decreased by \$109,524 during the current year. Total expenditures of \$1,767,653 exceeded revenue of \$1,658,129.

Property taxes brought in \$922,299 in revenues. Licenses and permits generated \$365,215 in revenues. Other revenues consisted of charges for services, grants and contributions, interest and investment earnings, and miscellaneous revenues. Changes in net assets for the year ending December 31, 2004 are as follows:

Statement of Activities

Revenues	
Program revenues:	
Charges for services	\$ 93,465
Operating grants and contributions	109,328
Capital grants and contributions	24,555
General revenues:	
Property Taxes	\$ 922,299
Licenses and permits	365,215
Grants and contributions	101,079
Interest and investment earnings	20,611
Miscellaneous	<u>21,577</u>
Total Revenues	<u>1,658,129</u>
Expenses	
General government	\$ 484,066
Public safety	595,165
Highways and streets	546,713
Health and welfare	10,299
Sanitation	126,169
Culture and recreation	<u>5,241</u>
Total Expenses	<u>1,767,653</u>
Decrease in net assets	<u>(109,524)</u>
Net assets, beginning of year	<u>2,013,322</u>
Net assets, end of year	<u>\$ 1,903,798</u>

The Town's expenses cover a range of services. The largest expenses were for highways and streets (31%), general government (27%) and public safety (34%), which accounted for 92% of total expenditures.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources.

General Fund

The general fund is the chief operating fund of the Town. At the end of the fiscal year 2004, the general fund had an unreserved, undesignated fund balance of \$247,011 while total general fund equity was \$262,276. The total fund equity includes reserves for encumbrances and reserves for the conservation commission. The General Fund balance decreased \$215,195 from December 31, 2003. This was primarily due to the use of an additional \$200,000 of unreserved fund balance to reduce the tax burden due to the loss in education funding. The State of New Hampshire recommends retention of 5% to 10% of undesignated fund balance. The Government Finance Officers Association suggests retaining 8% to 17%. The Town's current unreserved fund balance of \$247,011 is 5.4%. The Town has in the past attempted to retain 8% to 10%.

Capital Reserve Funds

The total fund balance for the capital reserve funds was \$828,538, an increase of \$86,398. This increase is primarily due to budgeted appropriation transfers of: \$50,000 Town Facilities, \$10,000 Highway Equipment and \$20,000 Highway Building.

Other Governmental Funds

The total fund balance in the other governmental funds was \$130,326, a decrease of \$42,196 from December 31, 2003. This is primarily the result of the expense of \$102,000 for purchasing the Fire Truck, offset by \$59,564 of ambulance fees deposited in the Special Revenue Fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual revenues on the budgetary basis exceeded the budgeted amount by \$73,967. This is primarily due to higher revenues from the following budgeted sources: \$44,515 in license and permits, and \$20,161 in property taxes and \$8,901 in charges for services. The under estimate on license and permits is due to the Board of Selectmen's conservative approach to anticipating revenue for vehicle registration fees.

The Town under expended its budget by \$158,297. This is primarily due to \$81,747 in vacancies in the Public Works Department and Police Department in which funds for salaries and benefits were not expended, \$23,000 unexpended capital outlay fire department funds, \$8,000 in benefit expenses in Administrative, \$6,480 unexpended for the landfill maintenance, \$5,000 interest for TAN (tax anticipation notes) was unexpended.

CAPITAL ASSET AND LONG-TERM OBLIGATIONS

Capital Assets

The Town considers a capital asset to be an asset whose costs exceeds \$10,000 and has a useful life of greater than (1) year. Assets are depreciated using the straight-line method over the course of their useful life.

The Town's investment in capital assets for its governmental activities as of December 31, 2004 amounts to \$1,616,317. Accumulated depreciation amounts to \$814,801 leaving a net book value of \$801,516. This investment in capital assets includes equipment, and real property. The net book value of the Town's buildings, building improvements, land, and equipment was reported for the first time this year in accordance with the new GASB requirements. See Note 6 in the Notes to the Basic Financial Statements for a summary of all capital assets.

Long-Term Obligations

During 2004 the Town's only long-term obligation was a closed unlined landfill and the estimated annual costs of \$16,400. The remaining 21-year obligation for the landfill was \$344,400. See Note 8 in the Notes to the Basic Financial Statements for a summary of all outstanding long-term obligations.

ECONOMIC CONDITIONS

The Town is in good financial condition. In the next few years, full staffing of budgeted positions, new municipal facilities to include a future Public Safety Building for the Police and Fire Department and Town Office will effect the financial position of the Town. It should also be noted, because the Town has utilized town budget surplus to offset increases in the Newfound School District budget, that the loss in Education grant monies were a significant impact this year and with the Legislature continuing the change the education funding formula it is believed it will continue to impact the Town's financial condition.

In general, the citizens of the Town have been supportive of the financial condition of the town and have exercised a conservative approach to their approval of expenditures. Although in 2004, the citizens objected to the level of undesignated fund balance, subsequently additional fund balance was used to reduce the tax burden. Unfortunately this has weakened the town's financial position by limiting cash flow (which may necessitate future borrowing), and/or restricting the town's ability to reduce the impact of unanticipated expenses (welfare assistance, emergencies, natural disasters...), as well as a significant loss in revenue (ie. school funding).

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town's finances for all of New Hampton citizens, taxpayers, and creditors. This financial report seeks to demonstrate the Town's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Town of New Hampton, Selectmen's Office, 6 Pinnacle Hill Road, New Hampton, NH 03856.