

BOROUGH OF HANOVER

Final Actual to Budget and Cash Carryover Analysis

FISCAL YEAR 2016

Summaries provided by like-funds detailing the revenues, expenditures, and interfund transactions to determine the addition to (or use of) reserves [Revenues less Expenditures less Interfund Transfers].

	<u>Revenues</u>	<u>Expenditures</u>	<u>Net Interfund Transfers In (Out)</u>	<u>Addition to (Use of) Reserves</u>
GENERAL FUND:				
Actual Results	\$ 13,397,462	\$ 12,095,901	\$ (181,928)	\$ 1,119,633
Adjusted Budget	\$ 13,153,880	\$ 13,019,453	\$ (436,872)	\$ (302,445)
Difference - + or (-)	\$ 243,582	\$ (923,552)	\$ 254,944	\$ 1,422,078
	<i>Actual Increase (Decrease) in Cash for Fiscal Year 2016</i>			\$ 1,403,144
	Ending Cash and Investments - December 31, 2016			\$ 6,835,819
LST AND BPT FUNDS:				
Actual Results	\$ 868,814	\$ 13,363	\$ (900,000)	\$ (44,549)
Adjusted Budget	\$ 800,750	\$ 21,125	\$ (903,700)	\$ (124,075)
Difference - + or (-)	\$ 68,064	\$ (7,762)	\$ 3,700	\$ 79,526
	<i>Actual Increase (Decrease) in Cash for Fiscal Year 2015</i>			\$ (32,102)
	Ending Cash and Investments - December 31, 2016			\$ 698,223
EQUIPMENT FUND:				
Actual Results	\$ 757	\$ 575,292	\$ 527,479	\$ (47,056)
Adjusted Budget	\$ 253,500	\$ 1,108,049	\$ 720,679	\$ (133,870)
Difference - + or (-)	\$ (252,743)	\$ (532,757)	\$ (193,200)	\$ 86,814
	<i>Actual Increase (Decrease) in Cash for Fiscal Year 2016</i>			\$ 35,273
	Ending Cash and Investments - December 31, 2016			\$ 200,613
WATER FUND [EXCLUDING CONSUMER DEPOSIT AGREEMENTS]:				
Actual Results	\$ 7,921,637	\$ 5,903,527	\$ (47,240)	\$ 1,970,870
Adjusted Budget	\$ 7,454,886	\$ 6,993,695	\$ (47,240)	\$ 413,951
Difference - + or (-)	\$ 466,751	\$ (1,090,168)	\$ -	\$ 1,556,919
	<i>Actual Increase (Decrease) in Cash for Fiscal Year 2016</i>			\$ 2,042,621
	Ending Cash and Investments - December 31, 2016			\$ 3,948,138
REGIONAL WASTEWATER TREATMENT FACILITY FUND:				
Actual Results	\$ 2,290,179	\$ 1,961,819	\$ -	\$ 328,360
Budgeted Estimates	\$ 2,132,925	\$ 2,370,047	\$ -	\$ (237,123)
Difference - + or (-)	\$ 157,255	\$ (408,228)	\$ -	\$ 565,483
	<i>Actual Increase (Decrease) in Cash for Fiscal Year 2016</i>			\$ 315,457
	Ending Cash and Investments - December 31, 2016			\$ 667,889
MARKET HOUSE FUND:				
Actual Results	\$ 37,160	\$ 32,277	\$ -	\$ 4,883
Adjusted Budget	\$ 37,235	\$ 34,610	\$ -	\$ 2,625
Difference - + or (-)	\$ (75)	\$ (2,333)	\$ -	\$ 2,258
	<i>Actual Increase (Decrease) in Cash for Fiscal Year 2016</i>			\$ 6,250
	Ending Cash and Investments - December 31, 2016			\$ 33,927

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	<u>Revenues</u>	<u>Expenditures</u>	<u>Net Interfund Transfers In (Out)</u>	<u>Addition to (Use of) Reserves</u>
SANITARY SEWER FUND:				
Actual Results	\$ 4,786,477	\$ 4,490,575	\$ (47,240)	\$ 248,662
Adjusted Budget	\$ 4,489,863	\$ 4,621,641	\$ (47,240)	\$ (179,018)
Difference - + or (-)	\$ 296,614	\$ (131,066)	\$ -	\$ 427,680

Actual Increase (Decrease) in Cash for Fiscal Year 2016 \$ 157,729
Ending Cash and Investments - December 31, 2016 \$ 1,845,009

GUTHRIE MEMORIAL LIBRARY FUND:				
Actual Results	\$ 700,077	\$ 1,343,436	\$ 648,929	\$ 5,570
Adjusted Budget	\$ 697,245	\$ 1,628,214	\$ 889,373	\$ (41,596)
Difference - + or (-)	\$ 2,832	\$ (284,778)	\$ (240,444)	\$ 47,166

Actual Increase (Decrease) in Cash for Fiscal Year 2016 \$ 51,932
Ending Cash and Investments - December 31, 2016 \$ 113,503

HIGHWAY LIQUID FUELS FUND:				
Actual Results	\$ 415,760	\$ 360,322	\$ -	\$ 55,438
Adjusted Budget	\$ 404,499	\$ 379,400	\$ -	\$ 25,099
Difference - + or (-)	\$ 11,261	\$ (19,078)	\$ -	\$ 30,339

Actual Increase (Decrease) in Cash for Fiscal Year 2016 \$ 58,723
Ending Cash and Investments - December 31, 2016 \$ 122,123

RECREATION BOARD FUND:				
Actual Results	\$ 13,474	\$ 2,910	\$ 4,739	\$ 15,303
Adjusted Budget	\$ -	\$ -	\$ -	\$ -
Difference - + or (-)	\$ 13,474	\$ 2,910	\$ 4,739	\$ 15,303

Actual Increase (Decrease) in Cash for Fiscal Year 2015 \$ 15,689
Ending Cash and Investments - December 31, 2016 \$ 52,897

MINIMUM FUND BALANCE AND FINANCIAL RESERVES ANALYSIS:

	<u>12/31/16 FB&FR</u>	<u>2017 Expenses</u>	<u>% of FB&FR</u>
General Funds	\$ 7,834,718	\$ 16,229,042	48.28%
Water Fund	\$ 3,948,138	\$ 6,860,466	57.55%
Market House Fund	\$ 33,927	\$ 36,745	92.33%
Sanitary Sewer Fund	\$ 1,845,009	\$ 4,104,269	44.95%

	<u>Projected 12/31/17 FB&FR</u>	<u>2017 Expenses</u>	<u>% of FB&FR</u>
General Funds	\$ 6,061,534	\$ 16,229,042	37.35%
Water Fund	\$ 4,664,038	\$ 6,860,466	67.98%
Market House Fund	\$ 32,020	\$ 36,745	87.14%
Sanitary Sewer Fund	\$ 2,140,004	\$ 4,104,269	52.14%

**TREASURER COMMENTARY -
BUDGET VS. ACTUAL, AND RESERVES ANALYSIS
FISCAL YEAR 2016**

The following is commentary complementary to the “Final Actual to Budget and Cash Carryover Analysis FISCAL YEAR 2016” to discuss the significant differences between the 2016 Adjusted Budget and actual results.

In addition, the commentary discusses the significant differences between the “Actual Results’ *Addition to (Use of) Reserves*” (modified accrual based accounting) and actual change in cash (cash based accounting) for 2016. These include revenues billed for but not yet paid (i.e. water bill unpaid at December 31 is revenue and receivable at year-end), expenditures accrued but not yet paid (i.e. December 2016 vehicle service not billed until January 2016 is expenditure and accounts payable at year-end), and other year-end timing difference (i.e. accrued payroll, prepaid expenses, etc.). **Simply put - expenditures relating to 2016 for services performed or goods received in 2016 are put to 2016, regardless of when paid/billed; and revenues for services performed by the Borough in 2016 are put to 2016 regardless of when paid/billed.**

Finally, information is presented in relation to computations of the Fund Balance and Financial Reserves (“FB&FR”) of the General Funds (General, LST, BPT, Equipment, and Guthrie Memorial Library), Water, Market House, and Sanitary Sewer Funds for evaluation against our minimum FB&FR policies (25% of existing or forthcoming annual expenditures). **PLEASE NOTE** based on the timing of several financial items at year-end (i.e. Public Works fuel system installation, CDBG grant activities, purchase of refuse vehicle, etc.), additional budget amendments will be proposed in early 2017 that will further revise the future analysis. Upon revisions, updated information in relation to the FB&FR policies will be provided and analyzed.

All summary data on the above-noted report is based on the REV-EXP- FINAL report provided, breaking revenues and expenditures from interfund transfers of resources.

GENERAL FUND

Revenues - actual results exceeded budget by \$243,582, primarily based on the following [several are larger offsetting differences]:

- Earned Income Taxes exceeded budget by \$147,574 - those taxes had been budgeted conservatively to protect against deflation in resident wages and unemployment.
- Real Estate Transfer Taxes exceeded budget by \$40,749 - often difficult to budget (hinge off of local property sales). 2016 budget was indexed moderately.
- Federal and State Capital and Operating Grants were under budget by \$447,649 - efforts relating to storm sewer improvements under CDBG grant programs pushing predominantly to 2017, and Pension State Aid received was allocated to all funds matching their expenditure since our Minimum Obligation was exceeded by State Aid.
- Sanitation (refuse collection charges) exceeded budget by \$94,517, primarily from increased Code Enforcement efforts and data matching within the financial management system.
- Tipping Fees (Transfer Station charges) exceeded budget by \$117,817. 2016 budget was indexed moderately, as volume can be hard to predict year-to-year.

- Contributions and Donations exceeded budget by \$177,691 - budgets for contributions are very conservative. Majority of excess from private donations to the Fire Department for the fire truck as well as donations to the Police Department for equipment and programs.

Expenditures - actual results were less than budget by \$923,552, primarily based on the following:

- Overall Salaries and Wages were less than budget by \$267,505 - budgets are conservatively based on overtime expectations for Police, Fire, and Public Works, and Police budget included estimate for new officer that ultimately did not accept the Borough's offer.
- Overall Employee Benefits and Taxes were less than budget by \$52,383, relating to the unfilled position above and some staff reduction savings.
- General Government Buildings & Plant (Org 401) was less than budget by \$35,155, relating primarily to offsetting unanticipated costs for library building studies (\$77,396) and reductions in operating utilities and limited expenditures for parking lot repairs and maintenance and capital outlays.
- Storm Sewer & Drains (Org 436) capital outlay expenditures were less than budget by \$429,180, directly relating to Federal Grant Program revenue noted above for storm sewer projects pushing to 2017.

Interfund Transfers - actual results were less than budget by \$240,444, due to debt refunding in the Guthrie Memorial Fund where cost savings were taken in 2016 (\$160,000 reduction in bond principal debt subsidy), and \$80,444 less in operating subsidy than anticipated.

The net result of 2016 activities was an increase to FB&FR of \$1,119,633 (versus budgeted expectation for a reduction in FB&FR of \$302,445), bringing General Fund (exclusive) carry-in cash to \$6,835,819 as of January 1, 2017. Actual change in cash for 2016 was an increase of \$1,403,144 - differences between increase in cash and FB&FR relate to timing differences on payment of bills and receipts for Borough billings at year-end.

LOCAL SERVICES AND BUSINESS PRIVILEGE TAX FUNDS

Revenues - actual results exceeded budget by \$68,064, due to conservative estimated budget amendment for BPT, given Ordinance approval moving to a single-filing system (previously bulk of BPT revenues in 3rd/4th quarter of the year for estimated filing, with final filing by April following year-end).

Expenditures - actual results were less than budget by \$7,762.

Interfund Transfers - actual results were just slightly less than budget by \$3,700. Transfers reflected annual subsidies to the General Fund (totaling \$600,000), and funding to the Equipment Fund for Public Safety and Public Works capital investments and relating operating costs.

The net result of 2016 activities was a decrease to FB&FR of \$44,549 (versus budgeted expectation for a reduction in FB&FR of \$124,075), bringing carry-in cash to \$6,835,819 as of January 1, 2017. Actual change in cash for 2016 was a decrease of \$32,102 - differences between decrease in cash and FB&FR relate to timing differences on payment of bills and receipts for Borough billings at year-end.

EQUIPMENT FUND

Revenues - actual results were less than budget by \$252,743; this primarily related to the delay in order of the replacement rear-load refuse truck (\$216,500 was revenue for accounting recognition of the lease proceeds).

Expenditures - actual results were less than budget by \$532,757, primarily from budgetary savings for the following:

- Forgoing camera and alarm system upgrades in multiple Borough locations (\$33,700).
- Police cruiser purchases (\$75,150 budget, \$59,259 actual).
- Forgoing purchase of vehicle for Deputy Fire Chief (\$36,500 for recognition of vehicle expenditure, and \$14,500 for 1st lease payment postponed).
- Delay in order of the replacement rear-load refuse truck (\$216,500 for recognition of vehicle expenditure, and \$47,500 for 1st lease payment postponed).
- Delays in Public Works fuel system replacement and Fire Department chiller replacement at Wirt Park Fire Station (\$73,500 budget, \$31,204 actual).

Interfund Transfers - actual results were just less than budget by \$193,200. Virtually all Equipment Fund costs are funded by transfers by relating funds; lower than anticipated transfers reflect forgone and delayed activities noted above in "Expenditures" section.

The net result of 2016 activities was a decrease to FB&FR of \$47,056 (versus budgeted expectation for a reduction in FB&FR of \$133,870), bringing carry-in cash to \$200,613 as of January 1, 2017. Actual change in cash for 2016 was an increase of \$35,273 - differences between increase in cash and decrease in FB&FR relate to timing differences on payment of bills at year-end.

WATER FUND

Revenues - actual results exceeded budget by \$466,751, related to allocated State Aid received (due to Aid exceeding minimum obligations - \$83,838), conservative estimates of water service charges in light of early-2015 rate changes (\$300,900 over budget), and recognition of \$99,472 in contributed capital for shared resurfacing costs for Locust Street project with Columbia Gas.

Expenditures - actual results were less than budget by \$1,090,168, primarily due to the following significant items:

- Conservative estimate of payroll (\$184,064), including overtime and related taxes/benefits. Budget process in 2017 removed "bucket" accounts and budgeted by line item, which will greatly reduce budget-actual differences moving forward.
- Distribution main line cleaning/lining (\$0 actual, \$80,000 budget).
- \$76,749 under-budget expenditure in plant chemicals cost (budgeted amounts reduced for 2017 based on plant operating savings).
- \$154,497 in forgone or unneeded capital equipment purchases, primarily from replacement of a patrolling pick-up truck and heavy-duty tractor.
- \$183,555 under-budget expenditure for utilities (predominantly electric - budgeted amounts reduced for 2017 based on plant operating savings).

Interfund Transfers - actual results met budget of \$47,240 for funding of shared computer and CodeRed Notification contract costs (paid from Equipment Fund).

The net result of 2016 activities was an increase to FB&FR of \$1,970,870 (versus budgeted expectation for an increase in FB&FR of \$413,951), bringing carry-in cash to \$3,948,138 as of January 1, 2017. Actual change in cash for 2016 was an increase of \$2,042,621 - differences between increase in cash and FB&FR relate to timing differences on payment of bills and receipts for Borough billings at year-end.

REGIONAL WASTEWATER FUND (NOTE - budget adopted in October)

Revenues - actual results exceeded budget by \$157,255; primarily related to industrial surcharges to the Water Fund for suspended solids treatment charges (\$90,000 budget, \$137,790 actual) and proceeds from the sale of Nutrient Credits (\$64,290 received, \$0 budget).

Expenditures - actual results were less than budget by \$408,228, primarily based on the following significant items:

- Overall savings in utilities costs against budget (\$81,994), primarily related to electric (budgeted amounts reduced for 2017 based on plant operating savings).
- No engineering costs incurred in 2016 (\$15,000 budget). Same budgeted in 2017, but anticipate pre-treatment officer support services from engineer.
- Reduction in sludge removal costs (\$110,000 budget and \$102,610 prior year actual, \$82,394 current year actual) in relation to negotiated contract with Material Matters.
- No purchases of methanol were needed in 2016 (budget of \$40,000) - tank was filled in 2013, and limited need due to efficiency improvements in operation (none in 2014-2015 either).
- No budgeted capital outlays (\$135,000) were expended due to forgoing projects.

The net result of 2016 activities was an increase to FB&FR of \$328,360 (versus budgeted expectation for a decrease in FB&FR of \$237,123), bringing carry-in cash to \$667,889 as of January 1, 2017. Actual change in cash for 2016 was an increase of \$315,457 - differences between increase in cash and FB&FR relate to timing differences on payment of bills and receipts for Borough billings at year-end. NOTE - budget built on break-even operations with \$100,000 operating/capital reserve.

MARKET HOUSE FUND

Revenues - actual results were less than budget by \$75.

Expenditures - actual results were less than budget by only \$2,333.

The net result of 2016 activities was an increase to FB&FR of \$4,883 (versus budgeted expectation for an increase in FB&FR of \$2,625), bringing carry-in cash to \$33,927 as of January 1, 2017. Actual change in cash for 2016 was an increase of \$6,250 - differences between increase in cash and FB&FR relate to timing differences on payment of bills and receipts for Borough billings at year-end.

SANITARY SEWER FUND

Revenues - actual results exceeded budget by \$296,614; primarily related to increase in sewer service charge revenues for Borough customers (water-consumption related - no change in rates).

Expenditures - actual results were less than budget by \$131,066; primarily related to conservative estimate of payroll, including overtime and related taxes/benefits (\$71,314) and costs related to flow exchange agreement with Penn Township (\$50,000 budget, \$33,625 actual).

Interfund Transfers - actual results met budget of \$47,240 for funding of shared computer and CodeRed Notification contract costs (paid from Equipment Fund).

The net result of 2016 activities was an increase to FB&FR of \$248,662 (versus budgeted expectation for a decrease in FB&FR of \$179,018), bringing carry-in cash to \$1,845,009 as of January 1, 2017. Actual change in cash for 2016 was an increase of \$157,729 - differences between increase in cash and FB&FR relate to timing differences on payment of bills and receipts for Borough billings at year-end.

GUTHRIE MEMORIAL LIBRARY FUND

Revenues - actual results exceeded budget by just \$2,832.

Expenditures - actual results were less than budget by \$284,778; primarily related to the following:

- Bond debt refunding during the year yielded immediate savings of \$196,916 against budget.
- Payroll and related taxes/benefits were conservatively budgeted and yielded savings of \$45,075 against budget.

Interfund Transfers - actual results were just less than budget by \$240,444, due to debt refunding in where cost savings were taken in 2016 (\$160,000 reduction in bond principal debt subsidy from the General Fund), and \$80,444 less in operating subsidy than anticipated.

The net result of 2016 activities was an increase to FB&FR of \$5,570 (versus budgeted expectation for a reduction in FB&FR of \$41,596), bringing carry-in cash to \$113,503 as of January 1, 2017. Actual change in cash for 2016 was an increase of \$51,932 - differences between increase in cash and decrease in FB&FR relate to timing differences on payment of bills and receipts for Borough billings at year-end.

HIGHWAY LIQUID FUELS FUND

Revenues - actual results exceeded budget by \$11,261; due to 2016 State appropriation received in excess of expectation.

Expenditures - actual results exceeded budget by \$19,078, relating to offsetting differences for snow and ice removal costs in excess of budget (\$62,015) and road repairs and maintenance less than budget (\$48,916).

The net result of 2016 activities was an increase to FB&FR of \$55,438 (versus budgeted expectation for an increase in FB&FR of \$25,099), bringing carry-in cash to \$122,123 as of January 1, 2017. Actual change in cash for 2016 was an increase of \$58,723 - differences between increase in cash and FB&FR relate to timing differences on payment of bills and receipts for Borough billings at year-end.

FUND BALANCE AND FINANCIAL RESERVES ANALYSIS

In 2016, the Borough implemented policy to monitor fund balances and financial reserves (FB*FR) to ensure budgetary practices would consider need for sufficient funding reserves for operations as part of the annual planning practice, and for multi-year forecasting. The policy includes maintaining minimum FB&FR at a level of 25% for the General Funds (combination of General, LST, BPT, Equipment, and Library Funds), Water Fund, Market House Fund, and Sanitary Sewer Fund.

The expenditure levels in this comparison are based on the 2017 proposed expenditures (which exclude any interfund transfers), further excluding retiree health insurance costs (100% reimbursed). Our policy provides the analysis based on either current or following years expenditures, providing us flexibility in assessment if either year includes items that would inflate or deflate the analysis (i.e. purchase of a large vehicle, one-time expense reductions).

FB&FR as of January 1, 2017 - all analyzed funds have FB&FR in excess of the 25% minimum. All four of the analyzed fund groupings increased the level of FB&FR in 2016.

Projected FB&FR as of January 1, 2018 - all analyzed funds have projected FB&FR in excess of the 25% minimum. NOTE - there will be a few proposed budget amendments in 2017 to recognize activities (mostly capital) that were anticipated for completion in 2016 that were either postponed or delayed into 2017 that were not accounted for as such in the proposed 2017 budget. While these items will have impact to lower the FB&FR, their effect will be less than 1% - the larger items include:

- Remainder of work for completion of the chiller replacement at Wirt Park Fire Station (est. \$30,000).
- Fuel system equipment and installation costs (occurred early 2017 - est. \$26,000).
- NOTE - while the refuse vehicle purchase was originally in the 2016 budget, 2017 and future budgets already accounted for lease payments on the vehicle. The only change to the 2017 budget will be for the accounting recognition of the vehicle cost and offsetting lease proceeds (revenues) - net of \$0.

We will continue to monitor the FB&FR positions of the four fund groups throughout the year for communication of any concerns or material deviations from our project plans. Should you have any questions regarding the analysis, policies, or desire any additional information of analytics, please let us know and we'll be pleased to provide.