



# CITY OF SACO, MAINE

**Administration**  
Saco City Hall  
300 Main Street  
Saco, Maine 04072-1538

**Kevin L. Sutherland, City Administrator**  
Telephone: (207) 282-4191  
Email: [KSutherland@sacomaine.org](mailto:KSutherland@sacomaine.org)  
Facebook: [/sacomaine](https://www.facebook.com/sacomaine)  
Twitter: [@sacomaine](https://twitter.com/sacomaine)

## BUDGET MEMORANDUM

**TO:** Mayor Michaud and Saco City Council  
**FROM:** Kevin L. Sutherland, City Administrator  
**DATE:** April 21, 2017  
**RE:** **Difference between March Financials and end of year projections**

---

The question has been raised, “How do you go from \$1.5 million under budget/over revenue in the [March Financials](#) (page 3) to \$750,000 as a forecast for the end of the year (see note 2 on page 30 of the [FY18 budget book](#))?”

I’d like to use this opportunity to explain.

On the expenditure side, we need to consider the outstanding Purchase Orders / Encumbered amounts. Services agreed upon or projects where services have been rendered, but the bill has not yet come in for those services. Here is a snapshot of what is still outstanding:

<b><u>Purchase Orders by Dept</u></b>	
IT	5 k
City Clerk	5 k
Police	27 k
Fire	45 k
Public Works	185 k
Econ Dev	18 k
Parks and Rec	2 k
	<u>287 k</u>

This, combined with additional savings across departments (mostly police department as they will not be at full staff again until after first of the year), we continue to hold our end of year forecast at about \$300,000.

### **Expenditures (in '000)**

535
<u>-287</u> Encumberances (POs)
<b>248</b>
<u>50</u> Other savings across departments
<b>298</b>

Additionally, it's important to understand the differences between accrual, modified accrual, and cash basis accounting. At this point, let's focus on the revenue side for this explanation.

Starting with definitions (pulled from my graduate school textbook, Financial Management for Public, Health, and Not-for-Profit Organizations):

**Accrual basis** – an accounting system that records revenue in the year in which they become earned (whether received or not).

**Cash basis** – Accounting system under which revenues are recorded when cash is received.

**Modified accrual accounting** – Accounting basis widely employed by governments for recording purposes for governmental funds. Under this basis of accounting, the primary focus is on financial resources. Typically financial resources are cash, investments, and receivables.

Saco, being a municipal government, uses **modified accrual accounting** and is probably what has lead to the confusion.

In a given fiscal year, revenues (and payments) are recorded in the month they were received (sent), this is the cash basis concept.

Conceptually, if a revenue check from the state comes in on March 30th, and last year it came in on April 2nd, the March Financials report (which is a snapshot in time) is going to show an above budget amount (because the seasonality is now off by a month).

However, if revenues come in July or August, but were meant for the prior year they show up in our monthly reports throughout the year and are adjusted as part of the auditing process and stated Comprehensive Annual Financial Report (CAFR). This is the modified accrual component of government. It recognized transactions from an accrual standpoint in the two months after the close of a particular fiscal year, in an attempt to capture everything from that fiscal year.

Looking at the March Financials, the additional property taxes and some of the other revenues are really a part of the prior year and will be adjusted down after the close of Fiscal Year 2017.

**Revenues (in '000)**

969	March Financial amount
-385	prior year taxes received in July and August
584	
-123	other prior year revenues received in July and August
461	

Finally, combining the under budget and additional revenues after the adjustments, we're still around the \$750,000 projected as part of the budget book released in March. With the additional winter storm we saw at the end of March (overtime expenses paid in April), I honestly don't think we'll be above the 750,000 come end of this year. With a budgeted 636,000 of fund balance, the total increase to the fund balance will likely be around \$110,000 to \$120,000.

**Total (in '000)**

759 current year under budget/over expenditure

-636 budgeted use of fund balance

**123** anticipated additional end of FY17 fund balance

I hope this helps clarify any concerns you may have. If you have any questions, let me know.