

GUIDE FOR ANALYSIS AND FOLLOW-UP OF FINANCIAL INDICATORS

Financial Indicator 1

Ratio/Trend:	Change in Net Position
	Beginning Net Position

Applicable Statements: Governmental Type Activities reported on the Statement of Activities

Warning Trend: Decreasing results over time indicate the government's financial position is weaker as a result of resource flow.

Suggested Analysis When Warning Trend is Observed:

1. Identify the causes of why this is happening? Due to borrowing from the past (spending down assets) and/or borrowing for the future (increasing liabilities)?
2. Evaluate the change in each line item on the governmental activities column of the government-wide statement of activities to identify the major reasons for the overall change in financial condition.
3. Has a change in accounting principal caused the reduction?

Financial Indicator 2

Ratio/Trend:	Unassigned and Assigned Fund Balance + Unrestricted Net Position (Constant \$)
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Applicable Funds: All governmental funds except special revenue funds and all proprietary funds

Warning Trend: Declining results may indicate that the entity could have difficulty maintaining a stable tax and revenue structure and/or adequate level of services. Deficits may indicate a financial emergency.

Suggested Analysis When Warning Trend is Observed:

1. Are unassigned and assigned fund balances/unrestricted net position dropping lower than is considered desirable? Can they be rebuilt?
2. Are unassigned and assigned fund balances/unrestricted net position being used to subsidize operating deficits?
3. Consider whether the entity established a fund balance policy and whether or not the entity complied with such policies.
4. Are reserves being used for purposes other than those for which they were originally set aside?
5. Is the decline in unassigned and assigned fund balances/unrestricted net position due to overestimating revenues?
6. Is the decline in unassigned and assigned fund balances due to over-expending budgeted amounts?
7. Has a change in accounting principles caused the reduction?
8. Was a fund or major segment of the entity that was accounted and reported as a governmental fund changed to an enterprise fund (or vice versa)?
9. Has the entity reduced excessive fund balances/net position by a planned appropriation of fund balances/net position?

Financial Indicator 3

Ratio/Trend:	Unassigned and Assigned Fund Balance
	Total Expenditures

Applicable Funds: General fund and total general fund expenditures (3GF) and all governmental funds for total expenditures and all governmental funds except special revenue funds for unassigned and assigned fund balance separately (3G).

Warning Trend: Percentages decreasing over time may indicate unstructured budgets that could lead to future budgetary problems for the local government even if the current fund balance is positive.

Suggested Analysis When Warning Trend is Observed:

1. Are unassigned and assigned fund balances dropping lower than is considered desirable? Can they be rebuilt?
2. Are unassigned and assigned fund balances being used to subsidize operating deficits?
3. Consider whether the entity established a fund balance policy and whether or not the entity complied with such policies.
4. Are reserves being used for purposes other than those they were originally set aside for?
5. Is the decline in unassigned and assigned fund balances due to overestimating revenues?
6. Is the decline in unassigned and assigned fund balances due to over-expending budgeted amounts?
7. Has a change in accounting principles caused the reduction?
8. Has the entity reduced excessive fund balances by a planned appropriation of fund balances?
9. Are per capita expenditures rising faster than per capita revenues? (see indicators 12 and 14) Is this straining the entity's ability to pay? Are fund balances and reserves being used to balance the budget?
10. Are per capita expenditures rising faster than personal income or business activity? Is this straining citizens' and businesses' ability to pay taxes?
11. Can expenditures be reduced by any of the following means:
 - Consolidating support services to achieve economies of scale
 - Cross-training personnel to avoid duplicating functions and reduce idle time
 - Contracting services or replacing full-time technical staff with consultants or service bureaus. (Note: services should be contracted out only after a thorough analysis has determined contracting out to be the less costly option. In some cases, the entity can still provide services at a lower cost than any private contractor could.)
 - Using more advanced management controls, information systems, or technologies
 - Transferring functions to other levels of government
 - Eliminating programs that are no longer important

- Pooling funds with other jurisdictions for self-insuring, investing idle funds, etc.
- Entering into mutual aid, service, or cooperative purchasing agreements with other jurisdictions

12. Note: Analysis of per capita expenditures should focus first on total expenditures and then on changes in individual expenditure categories. Expenditures can be evaluated based on fund (e.g., general fund, special revenue fund, etc.), function (e.g., police, fire), or organizational unit (e.g., personnel, public works). Expenditure categories that are increasing faster than total expenditures may be a good starting point for additional analysis.

Financial Indicator 4

Ratio/Trend:	Current Cash & Investments
	Current Liabilities

Applicable Funds: General fund (4GF), governmental funds (4G), and proprietary funds (4P) separately.

Warning Trend: Percentages decreasing over time may indicate that the local government has overextended itself in the long run or may be having difficulty raising the cash needed to meet its current needs.

Suggested Analysis When Warning Trend is Observed:

1. Are current expenditures higher than can be supported by current revenues?
2. Is there an efficient system in place for generating bills for money owed to the entity?
3. Are bills collected promptly? Is there a good system for identifying overdue accounts?
4. Are reimbursements for grant expenditures and other intergovernmental payments requested and paid promptly?
5. Does the entity's reporting system show monthly cash availability?
6. Are cash needs anticipated early enough to acquire the cash?
7. Are projected expenditures and revenues routinely compared? Can large expenditures be scheduled to coincide with revenue flows?
8. Did the entity's investment policies change?
9. If this trend is accompanied by an increase in receivables in locally-generated revenue accounts (taxes, user charges), the interest rate charged for delinquent payments may be too low to encourage prompt payment, a downturn in the local economy may have affected the ability of one or more large taxpayers or service users to pay their bills, or the entity may not be foreclosing on delinquent taxpayers. One procedure would be to review the tax and user charge receivable accounts' histories to see if further analysis may be necessary.
10. If this trend is accompanied by an increase in receivables from other governmental entities (e.g., State), the problem may be that the other entity is delaying payments for some reason (e.g., the local governmental entity is not timely filing reimbursement claims but is accruing the receivable). Contact the local government to determine if the problem is local or external.
11. If this trend is accompanied by a decrease in intergovernmental revenues (see data element #11), the problem may be a decrease in State aid or that the local governmental entity is not filing its claims timely (this assumes that the entity is not recording the revenue/receivable until the claim is filed, even at year-end). In the former instance, the reviewer may be aware of the change in law or can determine this through a telephone call. In the second instance, the late filing may be a new problem or an old problem that is getting worse. A detailed analysis of intergovernmental revenues would narrow the search in determining which intergovernmental revenues are being affected.

12. This trend may be caused by an operating deficit. Such a deficit could be caused by the use of fund balance/net position to fund operations of the affected fund or another fund. The reviewer should examine the budget to actual statements and/or operating transfers reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance/Statement of Revenues, Expenses, and Changes in Net Position to determine if this is the case and possibly call the entity to determine if the current budget continues this practice and the consequences of the current budget on available surplus. An operating deficit could also be unplanned. In such a case, the reviewer could contact the entity/auditor to determine the reasons for the unplanned operating deficit.

Financial Indicator 5

Ratio/Trend:	Current Cash & Investments	Current Cash & Investments
	Total Expenditures/12	Total Operating Expenses/12

Applicable Funds: Governmental funds (5G) Proprietary funds (5P)

Warning Trend: Percentages decreasing over time may indicate that the local government has overextended itself in the long run or may be having difficulty raising the cash needed to meet its current needs.

Suggested Analysis When Warning Trend is Observed:

1. Are current expenditures higher than can be supported by current revenues?
2. Is there an efficient system in place for generating bills for money owed to the entity?
3. Are bills collected promptly? Is there a good system for identifying overdue accounts?
4. Are reimbursements for grant expenditures and other intergovernmental payments requested and paid promptly?
5. Does the entity's reporting system show monthly cash availability?
6. Are cash needs anticipated early enough to acquire the cash?
7. Are projected expenditures and revenues routinely compared? Can large expenditures be scheduled to coincide with revenue flows?
8. Did the entity's investment policies change?
9. If this trend is accompanied by an increase in receivables in locally-generated revenue accounts (taxes, user charges), the interest rate charged for delinquent payments may be too low to encourage prompt payment, a downturn in the local economy may have affected the ability of one or more large taxpayers or service users to pay their bills, or the entity may not be foreclosing on delinquent taxpayers. One procedure would be to review the tax and user charge receivable accounts' histories to see if further analysis may be necessary.
10. If this trend is accompanied by an increase in receivables from other governmental entities (e.g., State), the problem may be that the other entity is delaying payments for some reason (e.g., the local governmental entity is not timely filing reimbursement claims but is accruing the receivable). Contact the local government to determine if the problem is local or external.
11. If this trend is accompanied by a decrease in intergovernmental revenues (see data element #11), the problem may be a decrease in State aid or that the local governmental entity is not filing its claims timely (this assumes that the entity is not recording the revenue/receivable until the claim is filed, even at year-end). In the former instance, the reviewer may be aware of the change in law or can determine this through a telephone call. In the second instance, the late filing may be a new problem or an old problem that is getting worse. A detailed analysis of intergovernmental revenues would narrow the search in determining which intergovernmental revenues are being affected.
12. This trend may be caused by an operating deficit. Such a deficit could be caused by the use of fund balance/net position to fund operations of the

affected fund or another fund. The reviewer should examine the budget to actual statements and/or operating transfers reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance/Statement of Revenues, Expenses, and Changes in Net Position to determine if this is the case and possibly call the entity to determine if the current budget continues this practice and the consequences of the current budget on available surplus. An operating deficit could also be unplanned. In such a case, the reviewer could contact the entity/auditor to determine the reasons for the unplanned operating deficit.

Financial Indicator 6

Ratio/Trend:	Current Liabilities	Current Liabilities
	Total Revenues	Total Operating Revenues

Applicable Funds: Governmental funds (6G) Proprietary funds (6P)

Warning Trend: Increasing results may indicate liquidity problems, deficit spending, or both.

Suggested Analysis When Warning Trend is Observed:

If the negative trend is accompanied by a significant amount of short-term debt:

1. Is short-term debt being used to fund an operating deficit?
2. Are accounts receivable that may be securing short-term debt valid and currently collectible?
3. Is the increase in current liabilities due to short-term borrowings where the revenue will not be recognized until the next year (i.e., revenue anticipation notes)?
4. Are accounts payable being postponed to cope with revenue shortfalls or overexpenditures?

If the negative trend is accompanied by cash concerns:

5. Are techniques for collecting accounts receivable effective? Are there procedures for prompt recognition and collection of money owed to the government?
6. Are techniques for managing and projecting cash flow accurate and efficient?
7. Are current liabilities increasing because routine payments are being deferred to stabilize a cash flow problem?

If the negative trend is accompanied by an increase in accounts payable:

8. Are accounts payable being postponed to cope with revenue shortfalls or overexpenditures?
9. Have changes in accounting principles resulted in the accrual of more current liabilities?

Financial Indicator 7

Ratio/Trend:	Long-term Debt (Constant \$)
	Population

Applicable Funds: Governmental funds

Warning Trend: Percentages increasing over time may indicate that the local government has a decreasing level of flexibility in how resources are allocated or decreasing ability to pay its long-term debt.

Suggested Analysis When Warning Trend is Observed:

1. Are debt service expenditures taking a greater proportion of total expenditures? See indicator #13 – debt service/total expenditures.
2. Are services formerly financed by current revenues now being financed by debt proceeds? Determine the items for which new debt is being issued and determine if these items were formerly financed through operating revenues (e.g., equipment purchases).

Financial Indicator 8

Ratio/Trend:	Excess of Revenues Over (Under) Expenditures
	Total Revenues

Applicable Funds: Governmental funds

Warning Trend: Decreasing surpluses and/or increasing deficits may indicate that current revenues are not supporting current expenditures.

Suggested Analysis When Warning Trend is Observed:

If the entity has operating deficits:

1. Was the reduction/deficit anticipated during budget preparation? Is it expected to continue in future years? Will surpluses or other sources of funding be available?
2. Is the deficit being funded by borrowing from surpluses in other funds? Can these other funds afford the loan without creating problems later?
3. Was the deficit due to revenue shortfalls?
4. Was the deficit caused by expenditure overruns? Were these due to inaccurate expenditure estimates at budget time or to ineffective expenditure controls during the fiscal year?
5. Was the deficit caused by an emergency or unexpected event? Are sufficient reserves left for future emergencies or unexpected events?

Financial Indicator 9

Ratio/Trend:	Operating Income (Loss)
	Total Operating Revenues

Applicable Funds: Proprietary funds

Warning Trend: Decreasing income and/or increasing losses may indicate that current revenues are not supporting current expenses.

Suggested Analysis When Warning Trend is Observed:

If the entity has operating losses:

1. Was the reduction/loss anticipated by the entity? Is it expected to continue in future years? Will surpluses or other sources of funding be available?
2. Is the loss being funded by borrowing from surpluses in other funds? Can these other funds afford the loan without creating problems later?
3. Was the loss due to revenue shortfalls?
4. Was the loss caused by expense overruns? Were these due to inaccurate expense estimates or to ineffective expense controls during the fiscal year?
5. Was the loss caused by an emergency? Are sufficient reserves left for future emergencies?

Financial Indicator 10

Ratio/Trend:	Intergovernmental Revenues	Intergovernmental Revenues
	Total Revenues	Total Operating Revenues

Applicable Funds: Governmental funds (G) Proprietary funds (P)

Warning Trend: Percentages increasing over time indicate a greater risk assumed by the local government due to increased dependence on outside revenues.

Suggested Analysis When Warning Trend is Observed:

1. Does the entity depend on intergovernmental revenues to fund ongoing, basic services? Do they have contingency plans in the event that those revenues are significantly reduced or discontinued?
2. Have fixed-term or one-time grants for special programs been received? Will the entity be able to continue the special programs when such grants end?
3. Are matching funds for intergovernmental revenues increasing as a percentage of operating expenditures? What is the entity's dollar commitment in matching funds, additional reporting requirements, or unreimbursed overhead costs? Have these costs been anticipated, budgeted and recorded?
4. Are intergovernmental revenues authorized by ongoing agreements? Do the agreements suggest that the revenues will continue, and at what level?
5. What are the entity's budgetary policies related to State shared revenues? Does the entity accept State-supplied estimates at face value or review them for reasonableness in light of current/projected economic conditions?

Financial Indicator 11

Ratio/Trend:	Unassigned and Assigned Fund Balances	Unrestricted Net Position
	Total Revenues	Total Operating Revenues

Applicable Funds: Governmental funds (G) Proprietary funds (P)

Warning Trend: Decreasing results may indicate a reduction in the local government's ability to withstand financial emergencies and/or its ability to fund capital purchases without having to borrow.

Suggested Analysis When Warning Trend is Observed:

1. Are fund balances/net position dropping lower than is considered desirable? Can they be rebuilt?
2. Are fund balances/net position being used to subsidize operating deficits?
3. Are reserves being used for purposes other than those they were originally set aside for?
4. Were decreases in unassigned and assigned fund balances/unrestricted net position "planned" by the entity, such as for capital outlay purposes?

Financial Indicator 12

Ratio/Trend:	Total Revenues (Constant \$)
	Population

Applicable Funds: Governmental funds

Warning Trend: Decreasing results indicate that the local government may be unable to maintain existing service levels with current revenue sources.

Suggested Analysis When Warning Trend is Observed:

1. Is the community experiencing general economic decline? Is the decline a temporary or continuing trend?
2. Is the decline related to changes in population, such as a decrease in population groups that historically generated the portions of revenue?
3. Is the decline due to problems inherent in the revenue structure, such as overdependence on inelastic revenues (revenues that are not affected by general economic changes such as license fees or user charges) during a period of inflation?
4. Are State or local restrictions (such as tax limitations) preventing the community from instituting the appropriate taxes, fees, or charges?
5. Can revenues be increased by any of the following measures?
 - Revising revenue collection procedures
 - Reducing tax delinquencies
 - Instituting or increasing service charges, fines and penalties, license and permit fees
 - Instituting or increasing charges for use of facilities, equipment, or personnel
 - Updating property assessments
 - Establishing special assessment districts
 - Investing a greater proportion of idle cash
 - Selling surplus property or equipment (Note: dependency on this revenue source should be avoided)
 - Securing special-purpose or grant funding from public or private agencies (Note: dependency on this revenue source should be avoided)

Financial Indicator 13

Ratio/Trend:	Debt Service
	Total Expenditures

Applicable Funds: Governmental funds

Warning Trend: Percentages increasing over time may indicate declining flexibility the local government has to respond to economic changes.

Suggested Analysis When Warning Trend is Observed:

1. Is the increase caused by an increase in long-term or short-term debt?
2. Is the increase due to increases in the interest rate rather than to increases in principal? Can the government improve its credit rating to reduce interest rates in the future?
3. Can debt issued at a relatively high interest rate be refinanced at an appreciably lower rate to reduce the annual amount of debt service?
4. What are the projected debt service requirements over the next ten years? Will they increase or decrease dramatically at any point?
5. Is the increase caused by a decline in expenditures arising from cost-cutting, program reallocation to proprietary funds, etc.?

Financial Indicator 14

Ratio/Trend:	Total Expenditures (Constant \$)
	Population

Applicable Funds: Governmental funds

Warning Trend: Increasing results may indicate that the cost of providing services is outstripping the local government's ability to pay (i.e., the local government may be unable to maintain services at current levels).

Suggested Analysis When Warning Trend is Observed:

1. Is the increase caused by increased levels of existing services or by the addition of new services? Are there increased revenues to pay for these increased services? Can user charges be instituted or increased to pay for these services? If not, can/should services be reduced or eliminated?
2. If the increase cannot be explained by the addition of new services, is personnel productivity or service efficiency declining? Can changes in management practices or technology deal with this?
3. Is the increase linked to an increase in fixed costs, or is it due to increases in programs that can be cut back at the discretion of the municipality?
4. Is the increase due to an increase in externally funded programs that are now fully funded and will be for their duration, or is it due to externally funded programs for which only seed money has been supplied, and for which the local governmental entity will have to assume future funding responsibility? In the second case, how will these programs be funded in the future?
5. Is the increase due to an increase in mandated services? Can the level of government that mandates the services provide funding?
6. Is the increase due to construction of capital facilities that were funded by debt, meaning that the expenditure burden will be spread out over many years? Will the debt service plus operating costs of the new facilities strain future budgets?
7. Are per capita expenditures rising faster than per capita revenues? (see indicator 12) Is this straining the entity's ability to pay? Are fund balances and reserves being used to balance the budget?
8. Are per capita expenditures rising faster than personal income or business activity? Is this straining citizens' and businesses' ability to pay taxes?
9. Is the increase due to a declining population base? Was the population decline due to physical census vs. perpetual statistical methods used in the interim? Should the need for or level of given programs be reevaluated?
10. Can expenditures be reduced by any of the following means:
 - Consolidating support services to achieve economies of scale
 - Cross-training personnel to avoid duplicating functions and reduce idle time
 - Contracting services or replacing full-time technical staff with consultants or service bureaus. (Note: services should be contracted out only after a thorough analysis has determined contracting out to be the less costly option. In some cases, the

entity can still provide services at a lower cost than any private contractor could.)

- Using more advanced management controls, information systems, or technologies
- Transferring functions to other levels of government
- Eliminating programs that are no longer important
- Pooling funds with other jurisdictions for self-insuring, investing idle funds, etc.
- Entering into mutual aid, service, or cooperative purchasing agreements with other jurisdictions

Note: Analysis of per capita expenditures should focus first on total expenditures and then on changes in individual expenditure categories. Expenditures can be evaluated based on fund (e.g., general fund, special revenue fund, etc.), function (e.g., police, fire), or organizational unit (e.g., personnel, public works). Expenditure categories that are increasing at a faster rate than total expenditures may be a good starting point for additional analysis.

Financial Indicator 15

Ratio/Trend:		Accumulated Depreciation
		Depreciable Capital Assets

Applicable Statements: Governmental and Business-type activities (separately) from the capital asset note to the financial statements.

Warning Trend: An increasing trend suggests that a local government is not systematically investing in its capital assets which may indicate increasing deferred replacement or maintenance costs.

Suggested Analysis When Warning Trend is Observed:

1. Consider capitalization policies and how differences in policies between entities could impact the indicator.
2. Is the need for capital outlay being deferred? Is this leaving the local government with worn or obsolete equipment?
3. Has there been a change in depreciation methods?
4. Consider the effects of any errors in capitalizing assets or in calculating depreciation.
5. Can improved maintenance extend the efficiency and life of the equipment?
6. Consider the potential for a large future obligation created by a maintenance and replacement backlog. If so, is there a plan for funding in place?
7. Is there a schedule that shows the cost and timing of future maintenance and replacement needs for all government assets? Are operating cost also taken into consideration?
8. Consider the effects on business and residential property values.

Financial Indicators 16 and 17

Ratio/Trend:	Pension Plan Fiduciary Net Position as a Percentage of Total Pension Liability ¹ Ratio OPEB Funded Ratio
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Applicable Statements: Required Supplementary Information and Defined benefit pension plan notes and OPEB notes. Defined benefit pension plans addressed separately for general employees (16G), police (16P), fire (16F), and combined plans (16C).

Warning Trend: A declining trend suggests that a local government may not be adequately funding their pension and OPEB plans, which may indicate an increasing burden on the tax base.

Suggested Analysis When Warning Trend is Observed:

1. Consider differences in actuarial assumptions and methodologies. Preliminary results for this indicator may be due to these differences.
2. Pay-as-you-go plans are unfunded and should be considered a negative factor when comparing to funded plans.
3. Is the pension and/or OPEB liability increasing? If so, how fast are they growing and how much is unfunded?
4. Are contributions, plan assets, and investment earnings keeping pace with the growth in benefits?
5. Are the costs of future health insurance premiums for retirees a significant future obligation for the local government?
6. Consider, if applicable, any net pension obligation and/or OPEB obligation reported.
7. Is there a history of underfunding the Annual Required Contribution (ARC)?
8. Have recent changes in pension plan benefits or actuarial assumptions increased unfunded pension liability?
9. Can employee contributions be increased or future benefits reduced?

¹ The effects on the trend due to the implementation of GASB Statements 67 and 68 should be considered, particularly the calculation of "Plan Fiduciary Net Position as a Percentage of Total Pension Liability", which replaced "Funded Ratio."

Financial Indicator 18

Ratio/Trend:	Millage Rate
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Ratio/Trend: Millage Rate

Applicable Funds: N/A

Warning Trend: Millage rates approaching the statutory limit may indicate that the local government has a reduced ability to raise additional funds when needed.

Suggested Analysis When Warning Trend is Observed:

1. Are State or local restrictions (such as tax limitations) preventing the community from instituting the appropriate taxes, fees, or charges? Is the entity's millage rate approaching the statutory maximum?