

# Financial Condition Analysis

Ingrid Otto, CPA, Auditor 2  
Division of Local Government and School Accountability



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## Financial Condition

- Your entity's ability to finance expected services on a continuing basis.



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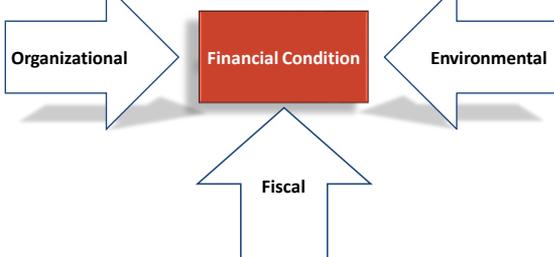
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## Factors that Affect Financial Condition



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## Four Components of Financial Condition

- Cash Solvency
- Budgetary Solvency
- Long-term Solvency
- Service Level Solvency



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## Factors Affecting Cash Solvency

- Billing cycles do not coincide with cash flow requirements.
- Receivables not being enforced timely.



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## Factors Affecting Budgetary Solvency

- Deficient budgeting procedures.
- Lack of knowledge about real program costs.
- Failure of management to understand:
  - Financial information
  - Proper budget preparation
  - Monitoring procedures



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## Factors Affecting Budgetary Solvency

- Federal, State and local mandates/restrictions
  - Tax Cap/ statutory limits
- Declining population or industry
- Severe weather



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## Factors Affecting Service Level Solvency

- Stagnant or shrinking tax base.
- High level of tax exempt properties.
- Lack in growth of revenues.
- Lack of control over rising costs.
- The true cost of providing services.



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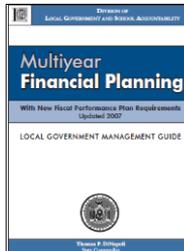
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## Factors Affecting Long-Term Solvency

- Non-existent or inadequate multiyear financial planning may lead to:
  - Deteriorating infrastructure
  - Lack of funds for contractual and debt payments.



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## Other Factors Affecting Financial Condition

- Community needs and resources
- Economic and environmental conditions
- Political culture



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## Analysis and Identification of Fiscal Stress



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## Sources of Information

- Financial statements and notes
- Multi-year comparisons
- Local officials/ managers
- Bond rating agencies



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## Before you Begin

- Analyze data integrity
  - Is the data from a reliable source?
  - Are the numbers current and complete?
  - Are there any data or methodological assumptions to be aware of?
  - Do the trends or results intuitively make sense?
- Garbage in – Garbage out



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## Analysis

- Fund balance
- Operating surplus/ deficit
- Liquidity
- Debt
- Other



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## Assessing Financial Condition

- Assess each fund individually
- Assess unit as a whole – keeping in mind legal and/or other restrictions
  - Are there funds which can legally provide assistance/ loans to other funds?
  - Avoid using tax revenues from one tax base to fund expenditures for another tax base (i.e., lighting districts, sidewalk districts, refuse collection, etc.)



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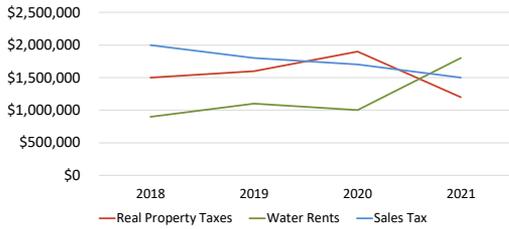
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## Trend Analysis

4 Year Revenue Trend




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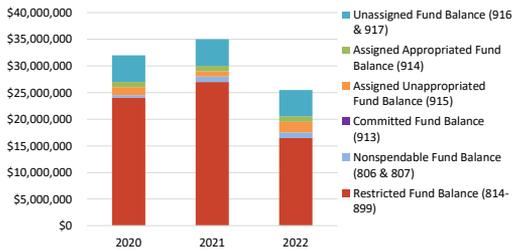
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## Fund Balance




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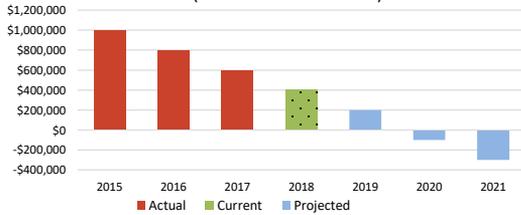
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## Fund Balance Won't Last Forever

General Fund (A) Unassigned Fund Balance (Accounts A916 & A917)




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## Fund Balance of Capital Funds

- May be extremely negative.
- Can be misleading:
  - Recognition of short-term debt as a liability of the fund.
  - Cash flow issues if debt has not been issued for project.

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## Operating Surplus/Deficit

- The difference between a unit's revenues and expenditures for a fiscal year.

$$\begin{array}{r} \text{Revenues} \\ - \text{Expenditures} \\ \hline \text{Operating Surplus (Deficit)} \end{array}$$

- Calculate as a % of total expenditures.

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## Results of Operations

Change in Fund Balance and Operating Results	2019	2020	2021
Beginning Fund Balance (8021)	\$27,045,326	\$30,957,589	\$34,150,384
Prior Period Adjustment – Increase (8012)	\$0	\$1	\$0
Prior Period Adjustment – Decrease (8015)	\$0	\$0	\$0
Restated Beginning Fund Balance (8022)	\$27,045,326	\$30,957,590	\$34,150,384
Actual Revenues	\$110,609,918	\$110,582,058	\$113,795,342
Actual Expenditures	\$106,697,655	\$107,389,264	\$123,392,687
Operating Surplus / (Deficit)	\$3,912,263	\$3,192,794	(\$9,597,345)
Ending Fund Balance	\$30,957,589	\$34,150,384	\$24,553,039

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## Liquidity

- Cash as % of current liabilities.
- Cash as % of average monthly expenditures.
- Cash as a % of ensuing year's appropriations.




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## Cash Position

Unrestricted Cash	2019	2020	2021
Cash (200)	\$13,664,597	\$14,133,780	\$16,493,181
Cash In Time Deposits (201)	\$0	\$0	\$0
Total Unrestricted Cash	\$13,664,597	\$14,133,780	\$16,493,181
Total Unrestricted Cash (200 & 201) as a % of Enacting Year's Budgeted Appropriations	12.25%	12.49%	14.07%
Restricted Cash	2019	2020	2021
Cash, Special Reserves (230)	\$19,032,749	\$22,757,049	\$23,026,786
Cash In Time Deposits, Special Reserves (231)	\$0	\$0	\$0
Total Restricted Cash	\$19,032,749	\$22,757,049	\$23,026,786
Restricted Fund Balance (814-899)	\$23,624,179	\$26,801,718	\$16,111,779
Restricted Cash Sufficient to Fund Restricted Fund Balance	(\$4,591,430)	(\$4,044,669)	\$6,915,007
Total Cash			
Total Cash (200-235)	\$32,697,346	\$36,890,829	\$39,519,967

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## Debt

Fiscal Stress Considerations:

- Short-term debt
  - could be indicative of a cash flow problem.
  - may be the source of funding for deficit fund balances.
- Long-term debt for relatively small purchases or projects.




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## Other Analysis

- Budgeting
- Interfund activity
- Long-term debt per capita
- Tax levy/ tax rates
- Taxable valuation
- Etc.



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## Budgeting

Analyze the Board's ability to adopt and successfully monitor budgets:

- Significant budget vs actual differences
- No budget modifications
- Consistent significant budget modifications



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## Budget vs. Actual Analysis

	2019	2020	2021
Estimated Revenues	\$109,702,607	\$111,590,726	\$113,146,376
Actual Revenues	\$110,609,918	\$110,582,058	\$113,795,342
<b>Over / (Under) Estimated Revenues</b>	<b>\$907,311</b>	<b>(\$1,008,668)</b>	<b>\$648,966</b>
Revenue Variance / Estimated Revenue	0.8%	-0.9%	0.6%
Appropriations	\$109,702,607	\$111,590,726	\$113,146,376
Actual Expenditures	\$106,697,655	\$107,389,264	\$123,392,687
<b>Under / (Over) Appropriations</b>	<b>\$3,004,952</b>	<b>\$4,201,462</b>	<b>(\$10,246,311)</b>
Expenditures Variance / Appropriations	2.7%	3.8%	-9.1%
<b>Total Budget Variance</b>	<b>\$3,912,263</b>	<b>\$3,192,794</b>	<b>(\$9,597,345)</b>
Real Property Tax Revenues (1001)	\$75,267,034	\$77,250,896	\$79,919,841
% Change in Real Property Tax Revenues	N/A	2.64%	3.45%



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## Interfund Transfers

Transfers In Accounts: 5031, 5050; Transfers Out Accounts: 9901, 9950

Funds	2019		2020		2021	
	Transfers Out	Transfers In	Transfers Out	Transfers In	Transfers Out	Transfers In
A General	\$26,063	\$0	\$151,272	\$0	\$246,639	\$540,400
C School Food Service	\$0	\$0	\$0	\$0	\$0	\$0
F Special Aid	\$0	\$26,063	\$0	\$23,246	\$0	\$14,700
H Capital Projects	\$0	\$0	\$0	\$128,026	\$0	\$231,939
K Non-Current Governmental Assets	\$0	\$0	\$0	\$0	\$0	\$0
PN Permanent	\$0	\$0	\$0	\$0	\$0	\$0
TA Agency	\$0	\$0	\$0	\$0	\$0	\$0
TE Private Purpose Trust	\$0	\$0	\$0	\$0	\$0	\$0
V Debt Service	\$0	\$0	\$0	\$0	\$540,400	\$0
W Non-Current Governmental Liabilities	\$0	\$0	\$0	\$0	\$0	\$0
<b>Totals</b>	<b>\$26,063</b>	<b>\$26,063</b>	<b>\$151,272</b>	<b>\$151,272</b>	<b>\$787,039</b>	<b>\$787,039</b>

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## Interfund Loans

Funds	2019		2020		2021	
	Due From (391)	Due To (630)	Due From (391)	Due To (630)	Due From (391)	Due To (630)
A General	\$237,820	\$20,202	\$422,918	\$1,884	\$507,996	\$33,142
C School Food Service	\$0	\$9,106	\$0	\$11,595	\$12,646	\$9,004
F Special Aid	\$20,202	\$227,629	\$1,833	\$404,852	\$18,493	\$486,848
H Capital Projects	\$0	\$1,817,490	\$0	\$1,831,804	\$0	\$13,051
PN Permanent	\$0	\$0	\$0	\$0	\$0	\$0
TA Agency	\$0	\$15	\$0	\$6,222	\$0	\$12,143
TE Private Purpose Trust	\$0	\$0	\$0	\$0	\$0	\$0
V Debt Service	\$1,817,490	\$0	\$1,818,04	\$0	\$15,054	\$0
<b>Totals</b>	<b>\$2,075,512</b>	<b>\$2,074,427</b>	<b>\$2,256,555</b>	<b>\$2,256,357</b>	<b>\$554,189</b>	<b>\$554,188</b>

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## Fiscal Stress Monitoring System (FSMS)




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# Thank You

Division of Local Government and School Accountability  
[localtraining@osc.ny.gov](mailto:localtraining@osc.ny.gov)



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