

# Financial Condition Analysis for Board Members

Division of Local Government and School Accountability



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1

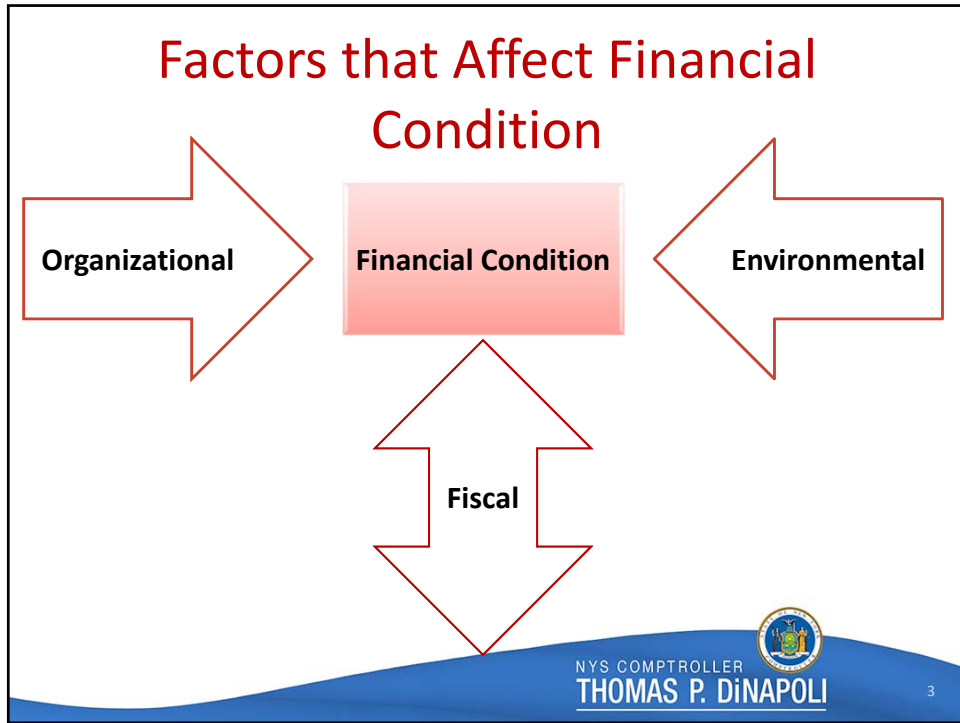
## Financial Condition


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



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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

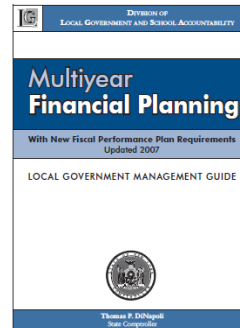


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## Factors Affecting Long-Term Solvency

- 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

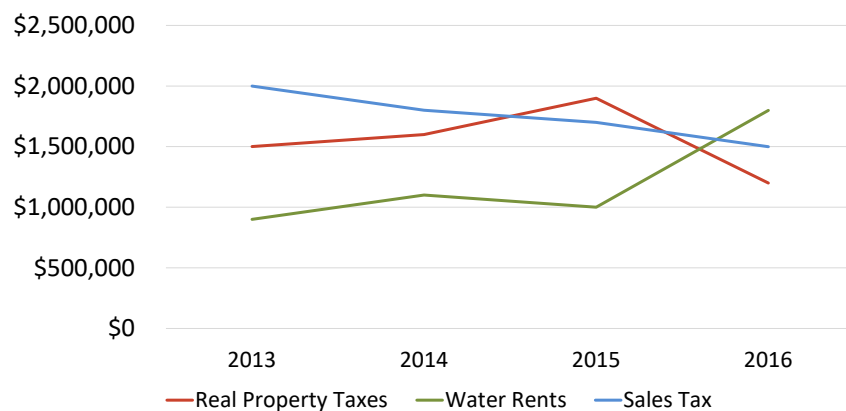


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## Trend Analysis

4 Year Revenue Trend



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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)

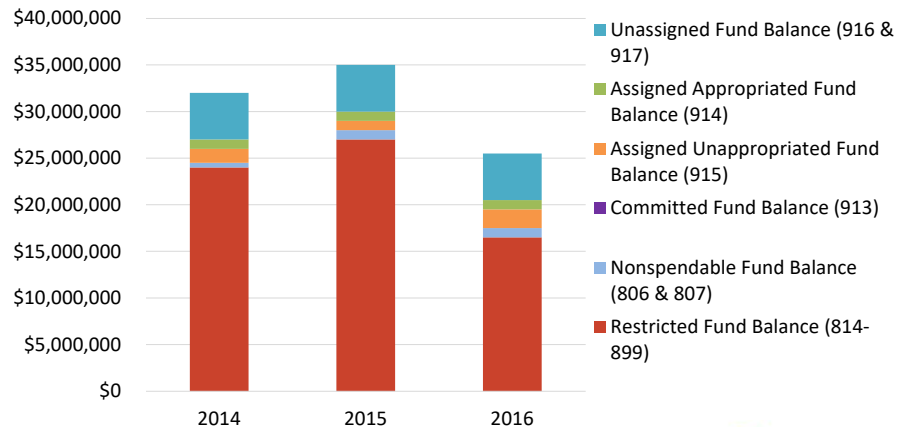


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## Fund Balance



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## Excessively Low Fund Balance

- Normally caused by:
  - Poor budget practices
  - Desire to reduce taxes, or keep them at same level
  - Political reasons
- Can result in:
  - Short-term borrowing (RANs, TANs, Budget Notes)
  - Deficit financing
  - Credit rating reduction
- Should be increased in conformity with long-term plans.

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## Excessively High Fund Balance

- Normally caused by:
  - Poor budget practices
  - Unduly high property taxes
  - Political reasons
- Greater opportunity for fraud if controls are weak.
- Should be appropriated or reduced in conformity with long-term plans.

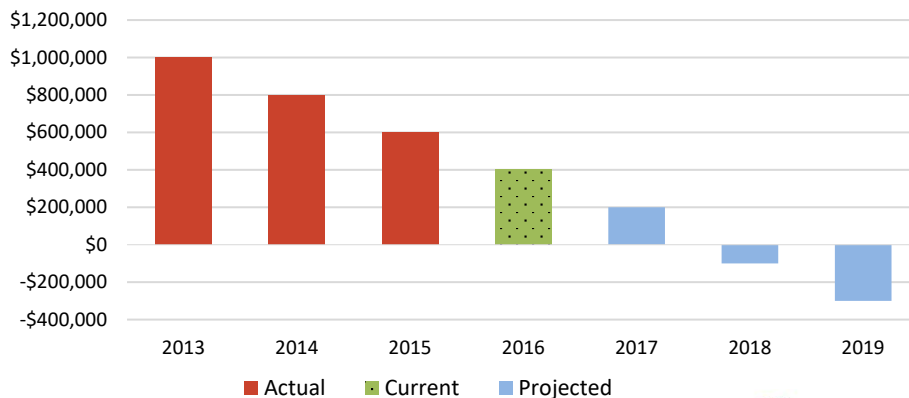


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## Fund Balance Won't Last Forever

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



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## Fund Balance of Capital Project Funds (H)

- 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.



## 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.



## Results of Operations

Change in Fund Balance and Operating Results	2018	2019	2020
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 (8029)	\$30,957,589	\$34,150,384	\$24,553,039
Surplus/Deficit as % of Total Expenditures			

## Liquidity

- Cash as % of current liabilities.
  - Ability to pay short-term obligations or those due within one year.
- Cash as % of average monthly expenditures.
  - Can you cover at least one month of expenditures in cash?
- Cash as a % of ensuing year’s appropriations.
  - How much of the ensuing budget can you pay in cash? And how much is too much/little?

## Cash Position

Unrestricted Cash	2018	2019	2020
Cash (200)	\$13,664,597	\$14,133,780	\$16,493,181
Cash In Time Deposits (201)	\$0	\$0	\$0
<b>Total Unrestricted Cash</b>	\$13,664,597	\$14,133,780	\$16,493,181
Total Unrestricted Cash (200 & 201) as a % of Ensuing Year's Budgeted Appropriations	12.25%	12.49%	14.07%
Restricted Cash	2018	2019	2020
Cash, Special Reserves (230)	\$19,032,749	\$22,757,049	\$23,026,786
Cash In Time Deposits, Special Reserves (231)	\$0	\$0	\$0
<b>Total Restricted Cash</b>	\$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	↑	↑	↑
<b>Total Cash (200-235)</b>	\$32,697,346	\$36,890,829	\$39,519,967

## 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.

## Other Analysis

- Budgeting
- Interfund Activity



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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

	2018	2019	2020
Estimated Revenues	\$109,702,607	\$111,590,726	\$113,146,376
Actual Revenues	\$110,609,918	\$110,582,058	\$113,795,342
Over / (Under) Estimated Revenues	\$907,311	(\$1,008,668)	\$648,966
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
Under / (Over) Appropriations	\$3,004,952	\$4,201,462	(\$10,246,311)
Expenditures Variance / Appropriations	2.7%	3.8%	-9.1%
Total Budget Variance	\$3,912,263	\$3,192,794	(\$9,597,345)
Budget Variance as % of Original Budget (How well did we budget?)			

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## Interfund Activity

- Interfund Transfers
  - Planned or unplanned subsidies
- Interfund Advances (GML 9-a)
  - Treated as Balance Sheet transactions.
  - Repaid within fiscal year advance was made.
  - Funds having a differing base for levy of taxes, special ad valorem levies or special assessments must charge interest.

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## Interfund Transfers

Funds		2018		2019		2020	
		Transfers Out (9901,9950)	Transfers In (5031,5050)	Transfers Out (9901,9950)	Transfers In (5031,5050)	Transfers Out (9901,9950)	Transfers In (5031,5050)
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>

## Interfund Advances

Funds		2018		2019		2020	
		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	\$1,811,804	\$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>





## Other Analysis

- Long Term Debt per Capita
- Tax Levy/Tax Rates
- Taxable Valuation
- Percent of Tax Limit Exhausted
- Percent of Debt Limit Exhausted



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33

## Fiscal Stress Monitoring System (FSMS)

- Evaluates fiscal stress from a budgetary solvency perspective.
- Narrow scope by design.
- Scores based on:
  - Financial indicators
  - Environmental indicators
- Aid in local discussions.
- Should not be a surprise.



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34

## OSC Resources

- Financial Toolkit for Local Officials
  - <https://www.osc.state.ny.us/local-government/financial-toolkit>
- Fiscal Stress Monitoring System
  - <https://www.osc.state.ny.us/local-government/fiscal-monitoring>
- Financial Condition Audits
  - <https://www.osc.state.ny.us/local-government/fiscal-monitoring/condition-audits>
- Publications
  - <https://www.osc.state.ny.us/local-government/publications>
- Training
  - <https://www.osc.state.ny.us/local-government/academy>



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35

## Thank You

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36