Analyzing the Financial Health of Governments after Statement 34

The views expressed in this presentation are those of the author. Official positions of the GASB are established only after extensive due process.

Overview

- Coming to grips with economic condition
  - What is it?
  - Aspects of economic condition
- Quick review of the new statements
- Ratio analysis with the new financial statements
- Resources for ratio analysis

What *is* economic condition?

- Considerable variation in definitions
- Confusion regarding terminology—financial position versus financial condition versus fiscal condition versus financial health, and so on…
- GASB developed a comprehensive concept of government financial health called *economic condition*

Defining *financial* condition

Financial condition is the probability that a government will meet both its financial obligations to creditors, consumers, employees, taxpayers, suppliers, constituents, and others as they become due and its service obligations to constituents, both currently and in the future.

Berne 1992

Defining *financial* condition

- A government's ability to generate enough cash over thirty or sixty days to pay its bills.
- A government's ability to generate enough revenues over its normal budgetary period to meet its expenditures and not incur debts.
- A government's ability in the long run to pay all the costs of doing business.
- A government's ability to provide services at the level and quality that are required for the health, safety, and welfare of the community and that its citizens desire.

Groves and Valente 1994

Defining *financial* condition

- *Financial position* is a government's financial status as of the date of its financial statements.
- *Financial condition* is a government's ability to meet its obligations as they come due and to finance the services its constituency requires.

Mead 2001a

What *is economic* condition?

Economic condition is a composite of a government's financial health and its ability and willingness to meet its financial obligations and commitments to provide services. Economic condition includes three components:

- *financial position*
- *fiscal capacity*
- *service capacity*

Components of economic condition

- *Financial position* is the status of a government's asset, liability, and net asset accounts, as displayed in its basic financial statements.
- *Fiscal capacity* is a government's ongoing ability and willingness to raise revenues, incur debt, and meet its financial obligations as they come due.

Components of economic condition

- *Service capacity* is a government's ongoing physical ability and willingness to supply the capital and human resources needed to meet its commitments to provide services.

So, what's your point?

- There is some disagreement over what terms to use and how to define them; however…
- GASB research shows that there is considerable agreement about which concepts and issues are relevant, regardless of what terminology is employed.

Aspects of Economic Condition: Conceptual View

- Fund balance/net assets
- Surpluses and deficits
- Revenues and revenue base
- Expenses/expenditures and spending pressures
- Debt/liabilities and debt service
- Pensions and OPEB
- Liquidity

Indicators View: Financial Aspects of Economic Condition

- Common-size ratios
- Financial position
- Liquidity & Solvency
- Fiscal capacity
- Risk & exposure
- Other

Quick Review of the New Financial Statements

GASB Statement 34

- Issued in June 1999
- Currently being implemented by state and local governments
- Main features:
  - Management's discussion and analysis
  - Government-wide statements
  - Fund statements
  - Budgetary comparisons
  - Note disclosures

NEW

IMPROVED

NEW & IMPROVED

Management's Discussion and Analysis (MD&A)

- Objective, easily readable analysis of government's financial health. Highlights of the financial statements.
  - Prepared by government's financial manager
- Location: before Basic Financial Statements but after Letter of Transmittal (if presented)
  - Classified as required supplementary information (RSI)

Contents of MD&A

- Description of financial statements
- Condensed financial information (at least two years)
- Analysis of financial position and results of operations
- Analysis of budgetary changes and results
- Description of capital asset and long-term debt activity during the year
- Description of currently known facts, decisions, or conditions

Government-wide Statements

- Statement of Net Assets
- Statement of Activities

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  - Economic resources and accrual basis—similar to methods used by private sector
  - Distinguishes between the financial information of a government's governmental activities, business-type activities, and component units

What Benefits Do the New Statements Offer to Users?

- See the bottom line of the entire government
- Determine if the government's overall financial position has improved or declined
- Better evaluation of interperiod equity
- Assess the full cost of government services
- Understand the extent of investment in capital assets
- Identify how programs/functions are financed
- Make better comparisons across governments

Statement of Net Assets

All assets and liabilities are reported.

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	$ 13,597,899	$		
Investments	27,365,221			
Receivables (net)	12,833,132			
Internal balances	175,000			
Inventories	322,149			
Capital assets, net (Note 1)	170,022,760			
Total assets	224,316,161			
LIABILITIES				
Accounts payable	6,783,310			
Deferred revenue	1,435,599	—	1,435,599	38,911
Noncurrent liabilities (Note 2):				
Due within one year	9,236,000	4,426,286	13,662,286	1,426,639
Due in more than one year	83,302,378	74,482,273	157,784,651	27,106,151
Total liabilities	100,757,287	79,659,989	180,417,276	30,375,033
NET ASSETS				
Invested in capital assets, net of related debt	103,711,386	73,088,574	176,799,960	15,906,392
Restricted for:				
Capital projects	11,705,864	—	11,705,864	492,445
Debt service	3,020,708	1,451,996	4,472,704	—
Community development projects	4,811,043	—	4,811,043	—
Other purposes	3,214,302	—	3,214,302	—
Unrestricted (deficit)	(2,904,429)	11,028,624	8,124,195	2,829,790
Total net assets	$ 123,558,874	$ 85,569,194	$ 209,128,068	$ 19,228,627

Including infrastructure assets and long-term liabilities such as outstanding bonds.

Statement of Net Assets

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	$ 13,597,899	$ 10,279,143	$ 23,877,042	$ 303,935
Investments	27,365,221	—	27,365,221	7,428,952
Receivables (net)				
Internal balances				
Inventories				
Capital assets, net (Note 1)				
Total assets				
LIABILITIES				
Accounts payable	6,783,310	751,430	7,534,740	1,803,332
Deferred revenue	1,435,599	—	1,435,599	38,911
Noncurrent liabilities (Note 2):				
Due within one year	9,236,000	4,426,286	13,662,286	1,426,639
Due in more than one year	83,302,378	74,482,273	157,784,651	27,106,151
Total liabilities	100,757,287	79,659,989	180,417,276	30,375,033
NET ASSETS				
Invested in capital assets, net of related debt	[illegible]	[illegible]8,574	176,799,960	15,906,392
Restricted for:				
Capital projects	11,705,864	—	11,705,864	492,445
Debt service	3,020,708	1,451,996	4,472,704	—
Community development projects	4,811,043	—	4,811,043	—
Other purposes	3,214,302	—	3,214,302	—
Unrestricted (deficit)	(2,904,429)	11,028,624	8,124,195	2,829,790
Total net assets	$ 123,558,874	$ 85,569,194	$ 209,128,068	$ 19,228,627

The difference between assets and liabilities is "net assets," and must be reported in three categories.

Statement of Activities

- Net cost format
- Expenses by function/program
- Revenues by:
  - Charges for services
  - Operating grants and contributions
  - Capital grants and contributions
  - General
- Special items, extraordinary items, and transfers

Statement of activities

The "net cost" format

Functions/Programs	Expenses	Indirect Expenses Allocation	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Changes in Net Assets, Primary Government: Governmental Activities	Changes in Net Assets, Primary Government: Business-type Activities	Changes in Net Assets, Primary Government: Total	Changes in Net Assets: Component Units
Primary government:									
Governmental activities:									
General government	$ 9,571,410	$(5,580,878)	$ 3,146,915	$ 843,617	—	—	—	—	—
Public safety	34,844,749	4,059,873	1,198,855	1,307,693	$ 62,300	$(36,335,774)	—	$(36,335,774)	—
Public works	10,128,538	3,264,380	850,000	—	2,252,615	(10,290,303)	—	(10,290,303)	—
Engineering services	1,299,645	111,618	704,793	—	—	(706,470)		(706,470)	—
Health and sanitation	6,738,672	558,088	5,612,267	575,000				(1,109,493)	—
Cemetery	735,866	55,809	212,496	—				(579,179)	—
Culture and recreation	11,532,350	1,858,966	3,995,199	2,450,000				(6,946,117)	—
Community development	2,994,389	1,740,265	—	—	2,580,000	(2,154,654)		(2,154,654)	—
Education (payment to school dist	21,893,273	—	—	—	—	(21,893,273)	—	(21,893,273)	—
Interest on long-term debt	6,068,121	(6,068,121)	—	—	—	—	—	—	—
Total governmental activities	105,807,013	$ 0	15,720,525	5,176,310	4,894,915	(80,015,263)	—	(80,015,263)	—
Business-type activities:									
Water	3,595,733		4,159,350	—	1,159,909	—	$ 1,723,526	1,723,526	—
Sewer	4,912,853		7,170,533	—	486,010	—	2,743,690	2,743,690	—
Parking facilities	2,796,283		1,344,087	—	—	—	(1,452,196)	(1,452,196)	—
Total business-type activities	11,304,869		12,673,970	—	1,645,919	—	3,015,020	3,015,020	—
Total primary government	$117,111,882		$ 28,394,495	$ 5,176,310	$ 6,540,834	(80,015,263)	3,015,020	(77,000,243)	—
Component units:									
Landfill	$ 3,382,157		$ 3,857,858	$ –	$ 11,397	—	—	—	$ 487,098
Public school system	31,186,498		705,765	3,937,083	—	—	—	—	(26,543,650)
Total component units	$ 34,568,655		$ 4,563,623	$ 3,937,083	$ 11,397	—	—	—	(26,056,552)
General revenues:									
Taxes:									
Property taxes, levied for general purposes						51,693,573	—	573	—
Property taxes, levied for debt service						4,726,244	—	244	—
Franchise taxes						4,055,505	—	505	—
Public service taxes						8,969,887	—	887	—
Payment from Sample City						—	—	—	21,893,273
Grants and contributions not restricted to specific programs						1,457,820	—	820	6,461,708
Investment earnings						1,958,144	601,349	493	881,763
Miscellaneous						884,907	104,925	832	22,464
Special item—gain on sale of park land						2,653,488	—	488	—
Transfers						501,409	(501,4[illegible])		—
Total general revenues, special items, and transfers						76,900,977	204,865[illegible]	[illegible]2	29,259,208
Change in net assets						(3,114,286)	3,219,885	[illegible],599	3,202,656
Net assets—beginning						126,673,160	82,349,309	2[illegible]2,469	16,025,971
Net assets—ending						$123,558,874	$ 85,569,194	$ 20[illegible],128,068	$19,228,627

Left to right

Then down

Statement of activities

Functions/Programs	Expenses	Indirect Expenses Allocation	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Changes in Net Assets: Primary Government: Governmental Activities	Changes in Net Assets: Primary Government: Business-type Activities	Changes in Net Assets: Primary Government: Total	Changes in Net Assets: Component Units
Primary government:									
Governmental activities:									
General government	$ 9,571,410	$(5,580,878)	$ 3,146,915	$ 843,617	—	—	—	—	—
Public safety	34,844,749	4,059,873	1,198,855	1,307,693	$ 62,300	$(36,335,774)	—	$(36,335,774)	—
Public works	10,128,538	3,264,380	850,000	—	2,252,615	(10,290,303)	—	(10,290,303)	—
Engineering services	1,299,645	111,618	704,793	—	—	(706,470)	—	(706,470)	—
Health and sanitation	6,738,672	558,088	5,612,267	575,000	—	(1,109,493)	—	(1,109,493)	—
Cemetery	735,866	5[illegible]	[illegible]			(579,179)	—	(579,179)	—
Culture and recreation	11,532,350	1,85[illegible]				(6,946,117)	—	(6,946,117)	—
Community development	2,994,389	1,74[illegible]				(2,154,654)	—	(2,154,654)	—
Education (payment to school dist	21,893,273					(21,893,273)	—	(21,893,273)	—
Interest on long-term debt	6,068,121	(6,06[illegible]				—	—	—	—
Total governmental activities	105,807,013	$				(80,015,263)	—	(80,015,263)	—
Business-type activities:									
Water	3,595,733					—	$ 1,723,526	1,723,526	—
Sewer	4,912,853					—	2,743,690	2,743,690	—
Parking facilities	2,796,283		1,344,087	—	—	—	(1,452,196)	(1,452,196)	—
Total business-type activities	11,304,869		12,673,970	—	1,645,919	—	3,015,020	3,015,020	—
Total primary government	$117,111,882		$ 28,394,495	$ 5,176,310	$ 6,540,834	(80,015,263)	3,015,020	(77,000,243)	—
Component units:									
Landfill	$ 3,382,157		$ 3,857,858	$ –	$ 11,397	—	—	—	$ 487,098
Public school system	31,186,498		705,765	3,937,083	—	—	—	—	(26,543,650)
Total component units	$ 34,568,655		$ 4,563,623	$ 3,937,083	$ 11,397	—	—	—	(26,056,552)
General revenues:									
Taxes:									
Property taxes, levied for general purposes						51,693,573	—	51,693,573	—
Property taxes, levied for debt service						4,726,244	—	4,726,244	—
Franchise taxes						4,055,505	—	4,055,505	—
Public service taxes						8,969,887	—	8,969,887	—
Payment from Sample City						—	—	—	21,893,273
Grants and contributions not restricted to specific programs						1,457,820	—	1,457,820	6,461,708
Investment earnings						1,958,144	601,349	2,559,493	881,763
Miscellaneous						884,907	104,925	989,832	22,464
Special item—gain on sale of park land						2,653,488	—	2,653,488	—
Transfers						501,409	(501,409)	—	—
Total general revenues, special items, and transfers						76,900,977	204,865	77,105,842	29,259,208
Change in net assets						(3,114,286)	3,219,885	105,599	3,202,656
Net assets—beginning						126,673,160	82,349,309	209,022,469	16,025,971
Net assets—ending						$123,558,874	$ 85,569,194	$ 209,128,068	$19,228,627

Reporting focuses on programs and functions

Statement of activities

Functions/Programs	Expenses	Indirect Expenses Allocation	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Changes in Net Assets: Primary Government: Governmental Activities	Changes in Net Assets: Primary Government: Business-type Activities	Changes in Net Assets: Primary Government: Total	Changes in Net Assets: Component Units
Primary government:									
Governmental activities:									
General government	$ 9,571,410	$(5,580,878)	$ 3,146,915	$ 843,617	—	—	—	—	—
Public safety	34,844,749	4,059,873	1,198,855	1,307,693	$ 62,300	$(36,335,774)	—	$(36,335,774)	—
Public works	10,128,538	3,264,380	850,000	—	2,252,615	(10,290,303)	—	(10,290,303)	—
Engineering services	1,299,645	111,618	704,793	—	—	(706,470)	—	(706,470)	—
Health and sanitation	6,738,672	558,088	5,612,267	575,000					—
Cemetery	735,866	55,809	212,496	—					—
Culture and recreation	11,532,350	1,858,966	3,995,199	2,450,000					—
Community development	2,994,389	1,740,265	—	—					—
Education (payment to school dist	21,893,273	—	—	—					—
Interest on long-term debt	6,068,121	(6,068,121)	—	—					—
Total governmental activities	105,807,013	$ 0	15,720,525	5,176,310					—
Business-type activities:									
Water	3,595,733		4,159,350	—					—
Sewer	4,912,853		7,170,533	—					—
Parking facilities	2,796,283		1,344,087	—					—
Total business-type activities	11,304,869		12,673,970	—	1,645,919	—	3,015,020	3,015,020	—
Total primary government	$117,111,882		$ 28,394,495	$ 5,176,310	$ 6,540,834	(80,015,263)	3,015,020	(77,000,243)	—
Component units:									
Landfill	$ 3,382,157		$ 3,857,858	$ –	$ 11,397	—	—	—	$ 487,098
Public school system	31,186,498		705,765	3,937,083	—	—	—	—	(26,543,650)
Total component units	$ 34,568,655		$ 4,563,623	$ 3,937,083	$ 11,397	—	—	—	(26,056,552)
General revenues:									
Taxes:									
Property taxes, levied for general purposes						51,693,573	—	51,693,573	—
Property taxes, levied for debt service						4,726,244	—	4,726,244	—
Franchise taxes						4,055,505	—	4,055,505	—
Public service taxes						8,969,887	—	8,969,887	—
Payment from Sample City						—	—	—	21,893,273
Grants and contributions not restricted to specific programs						1,457,820	—	1,457,820	6,461,708
Investment earnings						1,958,144	601,349	2,559,493	881,763
Miscellaneous						884,907	104,925	989,832	22,464
Special item—gain on sale of park land						2,653,488	—	2,653,488	—
Transfers						501,409	(501,409)	—	—
Total general revenues, special items, and transfers						76,900,977	204,865	77,105,842	29,259,208
Change in net assets						(3,114,286)	3,219,885	105,599	3,202,656
Net assets—beginning						126,673,160	82,349,309	209,022,469	16,025,971
Net assets—ending						$123,558,874	$ 85,569,194	$ 209,128,068	$19,228,627

Expenses are reported on the accrual basis and include charges for using capital assets.

Statement of activities

Functions/Programs	Expenses	Indirect Expenses Allocation	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Changes in Net Assets: Primary Government: Governmental Activities	Changes in Net Assets: Primary Government: Business-type Activities	Changes in Net Assets: Primary Government: Total	Changes in Net Assets: Component Units
Primary government:									
Governmental activities:									
General government	$ 9,571,410	$(5,580,878)	$ 3,146,915	$				—	—
Public safety	34,844,749	4,059,873	1,198,855					$(36,335,774)	—
Public works	10,128,538	3,264,380	850,000					(10,290,303)	—
Engineering services	1,299,645	111,618	704,793					(706,470)	—
Health and sanitation	6,738,672	558,088	5,612,267					(1,109,493)	—
Cemetery	735,866	55,809	212,496					(579,179)	—
Culture and recreation	11,532,350	1,858,966	3,995,199					(6,946,117)	—
Community development	2,994,389	1,740,265	—					(2,154,654)	—
Education (payment to school dist	21,893,273	—	—					(21,893,273)	—
Interest on long-term debt	6,068,121	(6,068,121)	—					—	—
Total governmental activities	105,807,013	$ 0	15,720,525					(80,015,263)	—
Business-type activities:									
Water	3,595,733		4,159,350					1,723,526	—
Sewer	4,912,853		7,170,533					2,743,690	—
Parking facilities	2,796,283		1,344,087					(1,452,196)	—
Total business-type activities	11,304,869		12,673,970					3,015,020	—
Total primary government	$117,111,882		$ 28,394,495	$				(77,000,243)	—
Component units:									
Landfill	$ 3,382,157		$ 3,857,858	$				—	$ 487,098
Public school system	31,186,498		705,765	3,937,083	—	—	—	—	(26,543,650)
Total component units	$ 34,568,655		$ 4,563,623	$ 3,937,083	$ 11,397	—	—	—	(26,056,552)
General revenues:									
Taxes:									
Property taxes, levied for general purposes						51,693,573	—	51,693,573	—
Property taxes, levied for debt service						4,726,244	—	4,726,244	—
Franchise taxes						4,055,505	—	4,055,505	—
Public service taxes						8,969,887	—	8,969,887	—
Payment from Sample City						—	—	—	21,893,273
Grants and contributions not restricted to specific programs						1,457,820	—	1,457,820	6,461,708
Investment earnings						1,958,144	601,349	2,559,493	881,763
Miscellaneous						884,907	104,925	989,832	22,464
Special item—gain on sale of park land						2,653,488	—	2,653,488	—
Transfers						501,409	(501,409)	—	—
Total general revenues, special items, and transfers						76,900,977	204,865	77,105,842	29,259,208
Change in net assets						(3,114,286)	3,219,885	105,599	3,202,656
Net assets—beginning						126,673,160	82,349,309	209,022,469	16,025,971
Net assets—ending						$123,558,874	$ 85,569,194	$ 209,128,068	$19,228,627

Allocating the cost of overhead and other indirect expenses is optional. Governments that allocate add this column.

Statement of activities Program Revenues

Functions/Programs	Expenses	Indirect Expenses Allocation	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Changes in Net Assets: Primary Government: Governmental Activities	Changes in Net Assets: Primary Government: Business-type Activities	Changes in Net Assets: Primary Government: Total	Changes in Net Assets: Component Units
Primary government:									
Governmental activities:									
General government	$ 9,571,410	$(5,580,87[illegible])	$ 3,146,915	$ 843,617	—	—	—	—	—
Public safety	34,844,749	4,059,87[illegible]	1,198,855	1,307,693	$ 62,300	$(36,335,774)	—	$(36,335,774)	—
Public works	10,128,538	3,264,38[illegible]	850,000	—	2,252,615	(10,290,303)	—	(10,290,303)	—
Engineering services	1,299,645	111,61[illegible]	704,793	—	—	(706,470)	—	(706,470)	—
Health and sanitation	6,738,672	558,08[illegible]	5,612,267	575,000	—	(1,109,493)	—	(1,109,493)	—
Cemetery	735,866	55,80[illegible]	212,496	—	—	(579,179)	—	(579,179)	—
Culture and recreation	11,532,350	1,858,96[illegible]	3,995,199	2,450,000	—	(6,946,117)	—	(6,946,117)	—
Community development	2,994,389	1,740,26[illegible]	—	—	2,580,000	(2,154,654)	—	(2,154,654)	—
Education (payment to school dist	21,893,273	—	—	—	—	(21,893,273)	—	(21,893,273)	—
Interest on long-term debt	6,068,121	(6,068,12[illegible])	—	—	—	—	—	—	—
Total governmental activities	105,807,013	$ [illegible]0	15,720,525	5,176,310	4,894,915	(80,015,263)	—	(80,015,263)	—
Business-type activities:									
Water	3,595,733		4,159,350	—	1,159,909	—	$ 1,723,526	1,723,526	—
Sewer	4,912,853		7,170,533	—	486,010	—	2,743,690	2,743,690	—
Parking facilities	2,796,283		1,344,087	—	—	—	(1,452,196)	(1,452,196)	—
Total business-type activities	11,304,869		12,673,970	—	1,645,919	—	3,015,020	3,015,020	—
Total primary government	$117,111,882		$ 28,394,495	$ 5,176,310	$ 6,540,834	(80,015,263)	3,015,020	(77,000,243)	—
Component units:									
Landfill	$ 3,382,157		$ 3,857,858	$ –	$ 11,397	—	—	—	$ 487,098
Public school system	31,186,498		705,765	3,937,083	—	—	—	—	(26,543,650)
Total component units	$ 34,568,655		$ 4,563,623	$ 3,937,083	$ 11,397	—	—	—	(26,056,552)
General revenues:									
Taxes:									
Property taxes, levied for general purposes						51,693,573	—	51,693,573	—
Property taxes, levied for debt service									
Franchise taxes									
Public service taxes									
Payment from Sample City									
Grants and contributions not restricted to specific									
Investment earnings									
Miscellaneous									
Special item—gain on sale of park land									
Transfers									
Total general revenues, special items, and transfers						76,900,977	204,865	77,105,842	29,259,208
Change in net assets						(3,114,286)	3,219,885	105,599	3,202,656
Net assets—beginning						126,673,160	82,349,309	209,022,469	16,025,971
Net assets—ending						$123,558,874	$ 85,569,194	$ 209,128,068	$19,228,627

Charges and fees, such as ball field permits, admissions to museums, and parking tickets.

Statement of activities Program Revenues

Functions/Programs	Expenses	Indirect Expenses Allocation	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Changes in Net Assets: Primary Government: Governmental Activities	Changes in Net Assets: Primary Government: Business-type Activities	Changes in Net Assets: Primary Government: Total	Changes in Net Assets: Component Units
Primary government:									
Governmental activities:									
General government	$ 9,571,410	$(5,580,878)	$ 3,146,915	$ 843,617	—	—	—	—	—
Public safety	34,844,749	4,059,873	1,198,855	1,307,693	$ 62,300	$(36,335,774)	—	$(36,335,774)	—
Public works	10,128,538	3,264,380	850,000	—	2,252,615	(10,290,303)	—	(10,290,303)	—
Engineering services	1,299,645	111,618	704,793	—	—	(706,470)	—	(706,470)	—
Health and sanitation	6,738,672	558,088	5,612,267	575,000	—	(1,109,493)	—	(1,109,493)	—
Cemetery	735,866	55,809	212,496	—	—	(579,179)	—	(579,179)	—
Culture and recreation	11,532,350	1,858,966	3,995,199	2,450,000	—	(6,946,117)	—	(6,946,117)	—
Community development	2,994,389	1,740,265	—	—	2,580,000	(2,154,654)	—	(2,154,654)	—
Education (payment to school dist	21,893,273	—	—	—	—	(21,893,273)	—	(21,893,273)	—
Interest on long-term debt	6,068,121	(6,068,121)	—	—	—	—	—	—	—
Total governmental activities	105,807,013	$ 0	15,720,525	5,176,310	4,894,915	(80,015,263)	—	(80,015,263)	—
Business-type activities:									
Water	3,595,733		4,159,350	—	1,159,909	—	$ 1,723,526	1,723,526	—
Sewer	4,912,853		7,170,533	—	486,010	—	2,743,690	2,743,690	—
Parking facilities	2,796,283		1,344,087	—	—	—	(1,452,196)	(1,452,196)	—
Total business-type activities	11,304,869		12,673,970	—	1,645,919	—	3,015,020	3,015,020	—
Total primary government	$117,111,882		$28,394,495	$ 5,176,310	$ 6,540,834	(80,015,263)	3,015,020	(77,000,243)	—
Component units:									
Landfill	$ 3,382,157		$ 3,857,858	$ –	$ 11,397	—	—	—	$ 487,098
Public school system	31,186,498		705,765	3,937,083	—	—	—	—	(26,543,650)
Total component units	$ 34,568,655		$ 4,563,623	$ 3,937,083	$ 11,397	—	—	—	(26,056,552)
General revenues:									
Taxes:									
Property taxes, levied for general purposes						51,693,573	—	51,693,573	—
						4,726,244	—	4,726,244	—
						4,055,505	—	4,055,505	—
						8,969,887	—	8,969,887	—
						—	—	—	21,893,273
programs						1,457,820	—	1,457,820	6,461,708
						1,958,144	601,349	2,559,493	881,763
						884,907	104,925	989,832	22,464
						2,653,488	—	2,653,488	—
						501,409	(501,409)	—	—
Total general revenues, special items, and transfers						76,900,977	204,865	77,105,842	29,259,208
Change in net assets						(3,114,286)	3,219,885	105,599	3,202,656
Net assets—beginning						126,673,160	82,349,309	209,022,469	16,025,971
Net assets—ending						$123,558,874	$ 85,569,194	$ 209,128,068	$19,228,627

Most grants and contributions come in the form of intergovernmental aid.

Statement of activities Net (Expense) Revenue

Users can see the extent to which services are self-financing, versus the extent to which they require financing from the general public, by subtracting expenses from program revenues.

A numb
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exceede
and placed a financing burden on the public.

Functions/Programs	Indirect	Program Revenues: Operating	Program Revenues: Capital	Changes in Net Assets: Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Total	Component Units
Primary government:							
Governmental activitie							
General governmen				—	—	—	—
Public safety				$(36,335,774)	—	$(36,335,774)	—
Public works				(10,290,303)	—	(10,290,303)	—
Engineering service				(706,470)	—	(706,470)	—
Health and sanitatic				(1,109,493)	—	(1,109,493)	—
Cemetery				(579,179)	—	(579,179)	—
Culture and recreati				(6,946,117)	—	(6,946,117)	—
Community develop				(2,154,654)	—	(2,154,654)	—
				(21,893,273)	—	(21,893,273)	—
				—	—	—	—
				(80,015,263)	—	(80,015,263)	—
				—	$ 1,723,526	1,723,526	—
				—	2,743,690	2,743,690	—
				—	(1,452,196)	(1,452,196)	—
				—	3,015,020	3,015,020	—
T	176,310		$ 6,540,834	(80,015,263)	3,015,020	(77,000,243)	—
		–	$ 11,397	—	—	—	$ 487,098
	937,083		—	—	—	—	(26,543,650)
T	937,083		$ 11,397	—	—	—	(26,056,552)
Property taxes, levied for general purposes				51,693,573	—	51,693,573	—
Property taxes, levied for debt service				4,726,244	—	4,726,244	—
Franchise taxes				4,055,505	—	4,055,505	—
Public service taxes				8,969,887	—	8,969,887	—
Payment from Sample City				—	—	—	21,893,273
Grants and contributions not restricted to specific programs				1,457,820	—	1,457,820	6,461,708
Investment earnings				1,958,144	601,349	2,559,493	881,763
Miscellaneous				884,907	104,925	989,832	22,464
Special item—gain on sale of park land				2,653,488	—	2,653,488	—
Transfers				501,409	(501,409)	—	—
Total general revenues, special items, and transfers				76,900,977	204,865	77,105,842	29,259,208
Change in net assets				(3,114,286)	3,219,885	105,599	3,202,656
Net assets—beginning				126,673,160	82,349,309	209,022,469	16,025,971
Net assets—ending				$123,558,874	$ 85,569,194	$ 209,128,068	$19,228,627

Statement of activities Net (Expense) Revenue

Functions/Programs	Expenses	Indirect Expenses Allocation	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Changes in Net Assets: Primary Government: Governmental Activities	Changes in Net Assets: Primary Government: Business-type Activities	Changes in Net Assets: Primary Government: Total	Component Units
Primary government:									
Governmental activities:									
General government	$ 9,571,410	$(5,580,878)	$ 3,146,915	$ 843,617	—	—	—	—	—
Public safety	34,844,749	4,059,873	1,198,855	1,307,693	$ 62,300	$(36,335,774)	—	$(36,335,774)	—
Public works	10,128,538	3,264,380	850,000	—	2,252,615	(10,290,303)	—	(10,290,303)	—
Engineering services	1,299,645	111,618	704,793	—	—	(706,470)	—	(706,470)	—
Health and sanitation	6,738,672	558,088	5,612,267	575,000	—	(1,109,493)	—	(1,109,493)	—
Cemetery	735,866	55,809	212,496	—	—	(579,179)	—	(579,179)	—
Culture and recreation	11,532,350	1,858,966	3,995,199	2,450,000	—	(6,946,117)	—	(6,946,117)	—
Community development	2,994,389	1,740,265	—	—	2,580,000	(2,154,654)	—	(2,154,654)	—
Education (payment to school dist	21,893,273	—	—	—	—	(21,893,273)	—	(21,893,273)	—
Interest on long-term debt	6,068,121	(6,068,121)	—	—	—	—	—	—	—
Total governmental activities	105,807,013	$ 0	15,720,525	5,176,310	4,894,915	(80,015,263)	—	(80,015,263)	—
Business-type activities:									
Water	3,595,733		4,159,350	—	1,159,909	—	$ 1,723,526	1,723,526	—
Sewer	[illegible]		[illegible]	[illegible]	[illegible]10	—	2,743,690	2,743,690	—
Parking facilities	[illegible]		[illegible]	[illegible]	—	—	(1,452,196)	(1,452,196)	—
Total business-t[illegible]	[illegible]		[illegible]	[illegible]	[illegible]19	—	3,015,020	3,015,020	—
Total primary governm[illegible]	[illegible]		[illegible]	[illegible]	[illegible]34	(80,015,263)	3,015,020	(77,000,243)	—
Component units:									
Landfill	[illegible]		[illegible]	[illegible]	[illegible]97	—	—	—	$ 487,098
Public school syst[illegible]	[illegible]		[illegible]	[illegible]	—	—	—	—	(26,543,650)
Total component unit[illegible]	[illegible]		[illegible]	[illegible]	[illegible]97	—	—	—	(26,056,552)
						51,693,573	—	51,693,573	—
						4,726,244	—	4,726,244	—
						4,055,505	—	4,055,505	—
						8,969,887	—	8,969,887	—
						—	—	—	21,893,273
						1,457,820	—	1,457,820	6,461,708
Investment earnings						1,958,144	601,349	2,559,493	881,763
Miscellaneous						884,907	104,925	989,832	22,464
Special item—gain on sale of park land						2,653,488	—	2,653,488	—
Transfers						501,409	(501,409)	—	—
Total general revenues, special items, and transfers						76,900,977	204,865	77,105,842	29,259,208
Change in net assets						(3,114,286)	3,219,885	105,599	3,202,656
Net assets—beginning						126,673,160	82,349,309	209,022,469	16,025,971
Net assets—ending						$123,558,874	$ 85,569,194	$ 209,128,068	$19,228,627

Numbers without parentheses mean program revenues exceeded expenses for that service, and made a net contribution to general revenues.

Statement of activities General Revenues

Functions/Programs	Expenses	Indirect Expenses Allocation	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Changes in Net Assets: Primary Government: Governmental Activities	Changes in Net Assets: Primary Government: Business-type Activities	Changes in Net Assets: Primary Government: Total	Changes in Net Assets: Component Units
Primary government:									
Governmental activities:									
General government	$ 9,571,410	$(5,580,878)	$ 3,146,915	$ 843,617	—	—	—	—	—
Public safety	34,844,749	4,059,873	1,198,855	1,307,693	[illegible]	[illegible]		[illegible]	—
Public works	10,128,538	3,264,380	850,000	—					—
Engineering services	1,299,645	111,618	704,793	—					—
Health and sanitation	6,738,672	558,088	5,612,267						—
Cemetery	735,866	55,809	212,496						—
Culture and recreation	11,532,350	1,858,966	3,995,199						—
Community development	2,994,389	1,740,265	—	—					—
Education (payment to school dist	21,893,273	—	—	—					—
Interest on long-term debt	6,068,121	(6,068,121)	—	—					—
Total governmental activities	105,807,013	$ 0	15,720,525	5,176,310	4,894,915	(80,0[illegible]	—	(80,015,263)	—
Business-type activities:									
Water	3,595,733		4,159,350	—	1,159,909		$ 1,723,526	1,723,526	—
Sewer	4,912,853		7,170,533	—	486,010	—	2,743,690	2,743,690	—
Parking facilities	2,796,283		1,344,087	—	—	—	(1,452,196)	(1,452,196)	—
Total business-type activities	11,304,869		12,673,970	—	1,645,919	—	3,015,020	3,015,020	—
Total primary government	$117,111,882		$28,394,495	$ 5,176,310	$ 6,540,834	(80,015,263)	3,015,020	(77,000,243)	—
Component u[illegible]									
Landfill			3,857,858	$ –	$ 11,397	—	—	—	$ 487,098
Public scho[illegible]			705,765	3,937,083	—	—	—	—	(26,543,650)
Total component units	$ 34,568,655		$ 4,563,623	$ 3,937,083	$ 11,397	—	—	—	(26,056,552)
General revenues:									
Taxes:									
Property taxes, levied for general purposes						51,693,573	—	51,693,573	—
Property taxes, levied for debt service						4,726,244	—	4,726,244	—
Franchise taxes						4,055,505	—	4,055,505	—
Public service taxes						8,969,887	—	8,969,887	—
Payment from Sample City						—	—	—	21,893,273
Grants and contributions not restricted to specific programs						1,457,820	—	1,457,820	6,461,708
Investment earnings						1,958,144	601,349	2,559,493	881,763
Miscellaneous						884,907	104,925	989,832	22,464
Special item—gain on sale of park land						2,653,488	—	2,653,488	—
Transfers						501,409	(501,409)	—	—
Total general revenues, special items, and transfers						76,900,977	204,865	77,105,842	29,259,208
Change in net assets						(3,114,286)	3,219,885	105,599	3,202,656
Net assets—beginning						126,673,160	82,349,309	209,022,469	16,025,971
Net assets—ending						$123,558,874	$ 85,569,194	$ 209,128,068	$19,228,627

What

Special and extraordinary items and transfers are reported separately.

How was it paid for?

Improvements in Fund Financial Statements

- Governments will continue to prepare fund statements, but the information has been improved
- Instead of grouping the information from different governmental and enterprise funds by type, the statements will show the major (most significant) individual funds in separate columns

The Old Way: Fund Types

OLD: Fund Types

Global Village
Balance Sheet
ernmental Funds
ber 31, 2002

	General Fund	Special Revenue Funds		Capital Projects Funds	ermanent Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	$3,418,4	3,797,635	$842	$1,141,6	$1,062,028	$10,261,800
Investments			3,141,9	729	343,272	27,214,984

The New and Improved Way:

Major Funds

NEW: Major Funds

Global Village
Balance Sheet
Governmental Funds
December 31, 2002

	General Fund	Dedicated Road Tax Fund	Economic Development Fund	School Construction Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	$3,418,485	$1,236,523			$5,606,792	$10,261,800
Investments			$13,262,695	$10,467,037	3,485,252	27,214,984

Budgetary Reporting

- Comparisons by fund-type are not required
- Budgetary comparison schedules are required only for the general fund and major special revenue funds
- Budget-to-actual comparisons are encouraged to be presented as required supplementary information (RSI), but can be presented in the basic financial statements

	Budgeted Amounts		Actual Amounts—	Variances— Positive (Negative)		Budget	Actual Amounts—
	Original	Final	Budgetary Basis	Original to Final	Final to Actual	to GAAP Reconciliation	GAAP Basis
REVENUES							
Property taxes	$ 52,017,833	$ 51,853,018	$ 51,173,436	$ (164,815)	$ (679,582)	$ —	$ 51,173,436
Other taxes—franchise and public service	12,841,209	12,836,024	13,025,392	(5,185)	189,368	—	13,025,392
Fees and fines	718,800	718,800	606,946	—	(111,854)	—	606,946
Licenses and permits	2,126,600	2,126,600	2,287,794	—	161,194	—	2,287,794
Intergovernmental	6,905,898	6,571,360	6,119,938	(334,538)	(451,422)	—	6,119,938
Charges for services	12,392,972	11,202,150	11,374,460	(1,190,822)	172,310	—	11,374,460
Interest	1,015,945	550,000	552,325	(465,945)	2,325	—	552,325
Miscellaneous	3,024,292	1,220,991	881,874	(1,803,301)	(339,117)	—	881,874
Total revenues	91,043,549	87,078,943	86,022,165	(3,964,606)	(1,056,778)	—	86,022,165
EXPENDITURES							
Current:							
General government (including contingencies and miscellaneous)	11					335	8,630,835
Public safety	33					086)	33,729,623
Public works	5					412)	4,975,775
Engineering services	1					655	1,299,645
Health and sanitation	5					621)	6,070,032
Cemetery						—	706,305
Culture and recreation	11					539	11,411,685
Education—payment to school district	22					—	21,893,273
Total expenditures	90					590)	88,717,173
Excess (deficiency) of revenues over expenditures	103,254	(2,962,979)	(2,752,598)	(3,066,233)	210,381	57,590	(2,695,008)
OTHER FINANCING SOURCES (USES)							
Transfers in	939,525	130,000	129,323	(809,525)	(677)	—	129,323
Transfers out	(2,970,256)	(2,163,759)	(2,163,759)	806,497	—	—	(2,163,759)
Total other financing sources and uses	(2,030,731)	(2,033,759)	(2,034,436)	(3,028)	(677)	—	(2,034,436)
SPECIAL ITEM							
Proceeds from sale of park land	1,355,250	3,500,000	3,476,488	2,144,750	(23,512)	—	3,476,488
Net change in fund balance	(572,227)	(1,496,738)	(1,310,546)	(924,511)	186,192	57,590	(1,252,956)
Fund balances—beginning	3,528,750	2,742,799	2,742,799	(785,951)	—	165,523	2,908,322
Fund balances—ending	$ 2,956,523	$ 1,246,061	$ 1,432,253	$ (1,710,462)	$ 186,192	$ 223,113	$ 1,655,366

Format may follow either a government's budget document or its financial statements

Explanation of differences:

(1) The City budgets for claims and compensated absences only to the extent expected to be paid, rather than on the modified accrual basis. $ (129,100)

Encumbrances for goods and services ordered but not received are reported as expenditures in the year *the orders are placed* for budgetary purposes, but are reported in the year the goods and services *are received* for GAAP purposes. 186,690

Net increase in fund balance—budget to GAAP $ 57,590

(2) The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the City's budget. (See Note 1 for a description of the City's budgetary accounting method.) This amount differs from the fund balance reported in the statement of revenues, expenditures, and changes in fund balances because of the cumulative effect of transactions such as those described above.

Budgetary Comparison Schedule

	Budgeted Amounts		Actual Amounts—	Variances— Positive (Negative)		Budget	Actual Amounts—
	Original	Final	Budgetary Basis	Original to Final	Final to Actual	to GAAP Reconciliation	GAAP Basis
REVENUES							
Property taxes	$ 52,017,833	$ 51,853,018	$ 51,173,436	$ (164,815)	$ (679,582)	$ —	$ 51,173,436
Other taxes—franchise and public service	12,841,209	12,836,024	13,025,392	(5,185)	189,368	—	13,025,392
Fees and fines	718,800					—	606,946
Licenses and permits	2,126,600					—	2,287,794
Intergovernmental	6,905,898					—	6,119,938
Charges for services	12,392,972					—	11,374,460
Interest	1,015,945					—	552,325
Miscellaneous	3,024,292					—	881,874
Total revenues	91,043,549					—	86,022,165
EXPENDITURES							
Current:							
General government (including contingencies and miscellaneous)	11,837,534					5	8,630,835
Public safety	33,050,966					6)	33,729,623
Public works	5,215,630					2)	4,975,775
Engineering services	1,296,275					5	1,299,645
Health and sanitation	5,756,250					1)	6,070,032
Cemetery	724,500	724,500	706,305	—	18,195	—	706,305
Culture and recreation	11,059,140	11,368,070	11,289,146	(308,930)	78,924	122,539	11,411,685
Education—payment to school district	22,000,000	22,000,000	21,893,273	—	106,727	—	21,893,273
Total expenditures	90,940,295	90,041,922	88,774,763	898,373	1,267,159	(57,590)	88,717,173
Excess (deficiency) of revenues over expenditures	103,254	(2,962,979)	(2,752,598)	(3,066,233)	210,381	57,590	(2,695,008)
OTHER FINANCING SOURCES (USES)							
Transfers in	939,525	130,000	129,323	(809,525)	(677)	—	129,323
Transfers out	(2,970,256)	(2,163,759)	(2,163,759)	806,497	—	—	(2,163,759)
Total other financing sources and uses	(2,030,731)	(2,033,759)	(2,034,436)	(3,028)	(677)	—	(2,034,436)
SPECIAL ITEM							
Proceeds from sale of park land	1,355,250	3,500,000	3,476,488	2,144,750	(23,512)	—	3,476,488
Net change in fund balance	(572,227)	(1,496,738)	(1,310,546)	(924,511)	186,192	57,590	(1,252,956)
Fund balances—beginning	3,528,750	2,742,799	2,742,799	(785,951)	—	165,523	2,908,322
Fund balances—ending	$ 2,956,523	$ 1,246,061	$ 1,432,253	$ (1,710,462)	$ 186,192	$ 223,113	$ 1,655,366

Originally adopted budget, including legally authorized adjustments prior to the start of the year

Explanation of differences:

(1) The City budgets for claims and compensated absences only to the extent expected to be paid, rather than on the modified accrual basis.	$ (129,100)
Encumbrances for goods and services ordered but not received are reported as expenditures in the year *the orders are placed* for budgetary purposes, but are reported in the year the goods and services *are received* for GAAP purposes.	186,690
Net increase in fund balance—budget to GAAP	$ 57,590

(2) The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the City's budget. (See Note 1 for a description of the City's budgetary accounting method.) This amount differs from the fund balance reported in the statement of revenues, expenditures, and changes in fund balances because of the cumulative effect of transactions such as those described above.

	Budgeted Amounts		Actual Amounts—	Variances— Positive (Negative)		Budget	Actual Amounts—
	[illegible]	Final	Budgetary Basis	Original to Final	Final to Actual	to GAAP Reconciliation	GAAP Basis
REVENUES							
Property taxes	$ 52,017,833	$ 51,853,018	$ 51,173,436	$ (164,815)	$ (679,582)	$ —	$ 51,173,436
Other taxes—franchise and public service	12,841,209	12,836,024	13,025,392	(5,185)	189,368	—	13,025,392
Fees and fines	718,800	718,800					
Licenses and permits	2,126,600	2,126,600					
Intergovernmental	6,905,898	6,571,360					
Charges for services	12,392,972	11,202,150					
Interest	1,015,945	550,000					
Miscellaneous	3,024,292	1,220,991					
Total revenues	91,043,549	87,078,943					
EXPENDITURES							
Current:							
General government (including contingencies and miscellaneous)	11,837,534	9,468,155					
Public safety	33,050,966	33,983,706					
Public works	5,215,630	5,025,848	4,993,187	189,782	32,661	(17,412)	4,975,775
Engineering services	1,296,275	1,296,990	1,296,990	(715)	—	2,655	1,299,645
Health and sanitation	5,756,250	6,174,653	6,174,653	(418,403)	—	(104,621)	6,070,032
Cemetery	724,500	724,500	706,305	—	18,195	—	706,305
Culture and recreation	11,059,140	11,368,070	11,289,146	(308,930)	78,924	122,539	11,411,685
Education—payment to school district	22,000,000	22,000,000	21,893,273	—	106,727	—	21,893,273
Total expenditures	90,940,295	90,041,922	88,774,763	898,373	1,267,159	(57,590)	88,717,173
Excess (deficiency) of revenues over expenditures	103,254	(2,962,979)	(2,752,598)	(3,066,233)	210,381	57,590	(2,695,008)
OTHER FINANCING SOURCES (USES)							
Transfers in	939,525	130,000	129,323	(809,525)	(677)	—	129,323
Transfers out	(2,970,256)	(2,163,759)	(2,163,759)	806,497	—	—	(2,163,759)
Total other financing sources and uses	(2,030,731)	(2,033,759)	(2,034,436)	(3,028)	(677)	—	(2,034,436)
SPECIAL ITEM							
Proceeds from sale of park land	1,355,250	3,500,000	3,476,488	2,144,750	(23,512)	—	3,476,488
Net change in fund balance	(572,227)	(1,496,738)	(1,310,546)	(924,511)	186,192	57,590	(1,252,956)
Fund balances—beginning	3,528,750	2,742,799	2,742,799	(785,951)	—	165,523	2,908,322
Fund balances—ending	$ 2,956,523	$ 1,246,061	$ 1,432,253	$ (1,710,462)	$ 186,192	$ 223,113	$ 1,655,366

Final budget, including all legally authorized amendments since the start of the year

Explanation of differences:

(1) The City budgets for claims and compensated absences only to the extent expected to be paid, rather than on the modified accrual basis.	$ (129,100)
Encumbrances for goods and services ordered but not received are reported as expenditures in the year *the orders are placed* for budgetary purposes, but are reported in the year the goods and services *are received* for GAAP purposes.	186,690
Net increase in fund balance—budget to GAAP	$ 57,590

(2) The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the City's budget. (See Note 1 for a description of the City's budgetary accounting method.) This amount differs from the fund balance reported in the statement of revenues, expenditures, and changes in fund balances because of the cumulative effect of transactions such as those described above.

Actual results for the year

	Budgeted Amounts		Actual Amounts—	Variances— Positive (Negative)		Budget	Actual Amounts—
	Original	Final	Budgetary Basis	Original to Final	Final to Actual	to GAAP Reconciliation	GAAP Basis
REVENUES							
Property taxes	$ 52,017,833	$ 51,853,018	$ 51,173,436	(164,815)	$ (679,582)	$ —	$ 51,173,436
[illegible]		12,836,024	13,025,392	(5,185)	189,368	—	13,025,392
[illegible]		718,800	606,946	—	(111,854)	—	606,946
[illegible]		2,126,600	2,287,794	—	161,194	—	2,287,794
[illegible]		6,571,360	6,119,938	(3[illegible]38)	(451,422)	—	6,119,938
[illegible]		11,202,150	11,374,460	(1,190[illegible])	172,310	—	11,374,460
[illegible]		550,000	552,325	(465,9[illegible]	2,325	—	552,325
Miscellaneous	3,024,292	1,220,991	881,874	(1,803,301)	(339,117)	—	881,874
Total revenues	91,043,549	87,078,943	86,022,165	(3,964,606)	(1,056,778)	—	86,022,165
EXPENDITURES							
Current:							
General government (including contingencies and miscellaneous)	11,837,534	9,468,155	8,621,500	2,369,379	84[illegible]5	9,335	8,630,835
Public safety	33,050,966	33,983,706	33,799,709	(932,740)	183,[illegible]97	(70,086)	33,729,623
Public works	5,215,630	5,025,848	4,993,187	189,782	32,661	(17,412)	4,975,775
Engineering services	1,296,275	1,296,990	1,296,990	(715)	—	2,655	1,299,645
Health and sanitation	5,756,250	6,174,653	6,174,653	(418,403)	—	(104,621)	6,070,032
Cemetery	724,500	724,500	706,305	—	18,195	—	706,305
Culture and recreation	11,059,140	11,368,070	11,289,146	(308,930)	78,924	122,539	11,411,685
Education—payment to school district	22,000,000	22,000,000	21,893,273	—	106,727	—	21,893,273
Total expenditures	90,940,295	90,041,922	88,774,763	898,373	1,267,159	(57,590)	88,717,173
Excess (deficiency) of revenues over expenditures	103,254	(2,962,979)	(2,752,598)	(3,066,233)	210,381	57,590	(2,695,008)
OTHER FINANCING SOURCES (USES)							
Transfers in	939,525	130,000	129,323	(809,525)	(677)	—	129,323
Transfers out	(2,970,256)	(2,163,759)	(2,163,759)	806,497	—	—	(2,163,759)
Total other financing sources and uses	(2,030,731)	(2,033,759)	(2,034,436)	(3,028)	(677)	—	(2,034,436)
SPECIAL ITEM							
Proceeds from sale of park land	1,355,250	3,500,000	3,476,488	2,144,750	(23,512)	—	3,476,488
Net change in fund balance	(572,227)	(1,496,738)	(1,310,546)	(924,511)	186,192	57,590	(1,252,956)
Fund balances—beginning	3,528,750	2,742,799	2,742,799	(785,951)	—	165,523	2,908,322
Fund balances—ending	$ 2,956,523	$ 1,246,061	$ 1,432,253	$ (1,710,462)	$ 186,192	$ 223,113	$ 1,655,366

Explanation of differences:

(1) The City budgets for claims and compensated absences only to the extent expected to be paid, rather than on the modified accrual basis. $ (129,100)

Encumbrances for goods and services ordered but not received are reported as expenditures in the year *the orders are placed* for budgetary purposes, but are reported in the year the goods and services *are received* for GAAP purposes. 186,690

Net increase in fund balance—budget to GAAP $ 57,590

(2) The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the City's budget. (See Note 1 for a description of the City's budgetary accounting method.) This amount differs from the fund balance reported in the statement of revenues, expenditures, and changes in fund balances because of the cumulative effect of transactions such as those described above.

	Budgeted Amounts		Actual Amounts—	Variances— Positive (Negative)		Budget to GAAP	Actual Amounts—
	Original	Final	Budgetary Basis	Original to Final	Final to Actual	Reconciliation	GAAP Basis
REVENUES							
Property taxes	$ 52,017,833	$ 51,853,018	$ 51,173,436	$ (164,815)	$ (679,582)	$ —	$ 51,173,436
Other taxes—franchise and public service	12,841,209	12,836,024	13,025,392	(5,185)	189,368	—	13,025,392
Fees and fines	718,800	718,800	606,946	—	(111,854)	—	606,946
Licenses and permits	2,126,600	2,126,600	2,287,794	—	161,194	—	2,287,794
Intergovernmental					,422)	—	6,119,938
Charges for services					,310	—	11,374,460
Interest					,325	—	552,325
Miscellaneous					,117)	—	881,874
Total revenues					,778)	—	86,022,165
EXPENDITURES							
Current:							
General government (including contingencies and miscellaneous)					,655	9,335	8,630,835
Public safety					,997	(70,086)	33,729,623
Public works					,661	(17,412)	4,975,775
Engineering services					—	2,655	1,299,645
Health and sanitation					—	(104,621)	6,070,032
Cemetery					,195	—	706,305
Culture and recreation					,924	122,539	11,411,685
Education—payment to school district					,727	—	21,893,273
Total expenditures					,159	(57,590)	88,717,173
Excess (deficiency) of revenues over expenditures					,381	57,590	(2,695,008)
OTHER FINANCING SOURCES (USES)							
Transfers in					(677)	—	129,323
Transfers out	(2,970,256)	(2,163,759)	(2,163,759)	806,497	—	—	(2,163,759)
Total other financing sources and uses	(2,030,731)	(2,033,759)	(2,034,436)	(3,028)	(677)	—	(2,034,436)
SPECIAL ITEM							
Proceeds from sale of park land	1,355,250	3,500,000	3,476,488	2,144,750	(23,512)	—	3,476,488
Net change in fund balance	(572,227)	(1,496,738)	(1,310,546)	(924,511)	186,192	57,590	(1,252,956)
Fund balances—beginning	3,528,750	2,742,799	2,742,799	(785,951)	—	165,523	2,908,322
Fund balances—ending	$ 2,956,523	$ 1,246,061	$ 1,432,253	$ (1,710,462)	$ 186,192	$ 223,113	$ 1,655,366

Governments show how the budgetary basis information relates to the modified accrual information in the financial statements

Explanation of differences:

(1) The City budgets for claims and compensated absences only to the extent expected to be paid, rather than on the modified accrual basis. $ (129,100)

Encumbrances for goods and services ordered but not received are reported as expenditures in the year *the orders are placed* for budgetary purposes, but are reported in the year the goods and services *are received* for GAAP purposes. 186,690

Net increase in fund balance—budget to GAAP $ 57,590

(2) The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the City's budget. (See Note 1 for a description of the City's budgetary accounting method.) This amount differs from the fund balance reported in the statement of revenues, expenditures, and changes in fund balances because of the cumulative effect of transactions such as those described above.

Benefits to Users of Budgetary Comparisons

- Assess government's compliance with budgetary requirements
- Follow progress of budget from start to finish
- Get a sense of the accuracy of budget predictions
- Get help determining if variances occurred because of changes in policy or differences in assumptions

General Considerations about Ratio Analysis with the New Financial Statements

General Considerations about Ratios

- Variations in ratio formulae
- Ratios can inform multiple issues
- Context is key:
  - over time
  - across entities
- Be persistent and thorough

From *Ye Olde Booke of Sayings about Financial Analysis*

- "No ratio is an island"
- "Analysts do not live by ratios alone"

Easier to calculate financial position ratios for entire government -- net assets ÷ expenses or net assets ÷ revenues

Statement of net assets eliminates need to piece together incompatible data from various fund statements

The statement also gives you options for analysis...

	Primary Government			
ASSETS				
Cash and cash eq		$		
Investments				
Receivables (net)				
Internal balances				
Inventories				
Capital assets, net				
Total assets	224,316,161			
LIABILITIES				
Accounts payable	6,783,310			
Deferred revenue	1,435,599			
Noncurrent liabilities (Note 2):				
Due within one year	9,236,000	4,426,286	13,662,286	1,426,639
Due in more than one year		482		106,151
Total liabilities		659		375,033
NET ASSETS				
Invested in capital assets, net of related debt		088		906,392
Restricted for:				
Capital projects				492,445
Debt service	3,020,708	1,451,996	4,472,704	—
Community development projects	4,811,043	—	4,811,043	—
Other purposes	3,214,302	—	3,214,302	—
Unrestricted (deficit)	(2,904,429)	11,028,624	8,124,195	2,829,790
Total net assets	$ 123,558,874	$ 85,569,194	$ 209,128,068	$ 19,228,627

or just its governmental activities

Use net assets for the entire government

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	$ 13,597,899	$ 10,279,143	$ 23,877,042	$ 303,935
Investments	27,365,221	—	27,365,221	7,428,952
Receivables (net)	12,833,132	3,609,615	16,442,747	4,042,290
Internal balances	175,000	(175,000)	—	—
Inventories	322,149	126,674	448,823	83,697
Capital assets, net (Note 1)	170,022,760	151,388,751	321,411,511	37,744,786
Total assets	224,316,161	165,229,183	389,545,344	49,603,660
LIABILITIES				
Accounts payable	6,783,310	751,430	7,534,740	1,803,332
Deferred revenue	1,435,599	—	1,435,599	38,911
Noncurrent liabilities (Note 2):				
Due within one year	9,236,000	4,426,286	13,662,286	1,426,639
Due in more than one year	83,302,378	74,482,273	157,784,651	27,106,151
Total liabilities	100,757,287	79,659,989	180,417,276	30,375,033
NET ASSETS				
Invested in capital assets, net of related debt	103,711,386	73,088,574	176,799,960	15,906,392
Restricted for:				
Capital projects	11,705,864	—	11,705,864	492,445
Debt service	3,020,708	1,451,996	4,472,704	—
Community development projects	4,811,043	—	4,811,043	—
Other purposes	[illegible]	—	3,214,302	—
Unrestricted (deficit)	[illegible]	11,028,624	8,124,195	2,829,790
Total net assets	[illegible]	85,569,194	$ 209,128,068	$ 19,228,627

Use total net assets

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	$ 13,597,899	$ 10,279,143	$ 23,877,042	$ 303,935
Investments	27,365,221	—	27,365,221	7,428,952
Receivables (net)	12,833,132	3,609,615	16,442,747	4,042,290
Internal balances	175,000	(175,000)	—	—
Inventories	322,149	126,674	448,823	83,697
Capital assets, net (Note 1)	170,022,760	151,388,751	321,411,511	37,744,786
Total assets	224,316,161	165,229,183	389,545,344	49,603,660
LIABILITIES				
Accounts payable	6,783,310	751,430	7,534,740	1,803,332
Deferred revenue	1,435,599	—	1,435,599	38,911
Noncurrent liabilities (Note 2):				
Due within one year	9,236,000	4,426		1,426,639
Due in more than one year	83,302,378	74,482		27,106,151
Total liabilities	100,757,287	79,659		30,375,033
NET ASSETS				
Invested in capital assets, net of related debt	103,711,386	73,088		15,906,392
Restricted for:				
Capital projects	11,705,864	—	11,705,864	492,445
Debt service	3,020,708	1,451,996	4,472,704	—
Community development projects	4,811,043	—	4,811,043	—
Other purposes	3,214,302	—	3,214,302	—
Unrestricted (deficit)	(2,904,429)	11,028,624	8,124,195	2,829,790
Total net assets	$ 123,558,874	$ 85,569,194	$ 209,128,068	$ 19,228,627

or just unrestricted net assets

State of Seabury
Statement of Net Assets
As of June 30, 2002
(dollars in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units

Optional classified format offers subtotals that can be plugged directly into liquidity ratios

Total current assets

(Note: classified format separates current assets and liabilities from noncur assets and liabil

Current Ratio

$8,550,906 ÷ 4,243,319 = 2.02

LIABILITIES

Total current liabilities

NET ASSETS

Government-wide statements provide comparability among governments—they help alleviate the need to mix and match different fund structures and funding approaches

A single total expense number—no concerns about expenditures versus other financing uses

		Indirect	Program Revenues			Changes in Net Assets			
				Operating	Capital	Primary Government			
							Business-type Activities	Total	Component Units
							—	—	—
							—	$(36,335,774)	—
							—	(10,290,303)	—
							—	(706,470)	—
							—	(1,109,493)	—
							—	(579,179)	—
							—	(6,946,117)	—
							—	(2,154,654)	—
Education (payment to school dist	21,893,273	—	—	—	—	(21,893,273)	—	(21,893,273)	—
Interest on long-term debt	6,068,121	(6,068,121)	—	—	—	—	—	—	—
Total governmental activities	105,807,013	$ 0	15,720,525	5,176,310	4,894,915	(80,015,263)	—	(80,015,263)	—
Business-type activities:									
Water	3,595,733		4,159,350	—	1,159,909	—	$ 1,723,526	1,723,526	—
Sewer	4,912,853		7,						—
Parking facilities	2,796,283		1,						—
Total business-type activities	11,304,86		12,						—
Total primary government	$117,111,882		$28,						—
Component units:									
Landfill	$ 3,382,157		$ 3						487,098
Public school system	31,186,498								26,543,650)
Total component units	$ 34,568,655		$ 4						26,056,552)
General revenues:									
Taxes:									
Property taxes, levied for general purposes						51,693,573	—	51,693,573	—
Property taxes, levied for debt service						4,726,244	—	4,726,244	—
Franchise taxes						4,055,505	—	4,055,505	—
Public service taxes						8,969,887	—	8,969,887	—
Payment from Sample City						—	—	—	21,893,273
Grants and contributions not restricted to specific programs						1,457,820	—	1,457,820	6,461,708
Investment earnings						1,958,144	601,349	2,559,493	881,763
Miscellaneous						884,907	104,925	989,832	22,464
Special item—gain on sale of park land						2,653,488	—	2,653,488	—
Transfers						501,409	(501,409)	—	—
Total general revenues, special items, and transfers						76,900,977	204,865	77,105,842	29,259,208
Change in net assets						(3,114,286)	3,219,885	105,599	3,202,656
Net assets—beginning						126,673,160	82,349,309	209,022,469	16,025,971
Net assets—ending						$123,558,874	$ 85,569,194	$ 209,128,068	$19,228,627

Similarly, no concerns about revenues versus other financing sources

Funct		Indirect	Program Revenues			Changes in Net Assets			
				Operating	Capital	Primary Government			
					Grants and	Governmental	Business-type		Component
Prima					Contributions	Activities	Activities	Total	Units
Gov									
Ge					—	—	—	—	—
Pu					$ 62,300	$(36,335,774)	—	$(36,335,774)	—
Pu					2,252,615	(10,290,303)	—	(10,290,303)	—
En					—	(706,470)	—	(706,470)	—
He					—	(1,109,493)	—	(1,109,493)	—
Cemetery	735,866	55,809	212,496	—	—	(579,179)	—	(579,179)	—
Culture and recreation	11,532,350	1,858,966	3,995,199	2,450,000	—	(6,946,117)	—	(6,946,117)	—
Community development	2,994,389	1,740,265	—	—	2,580,000	(2,154,654)	—	(2,154,654)	—
Education (payment to school dist	21,893,273	—	—	—	—	(21,893,273)	—	(21,893,273)	—
Interest on long-term debt	6,068,121	(6,068,121)	—	—	—	—	—	—	—
Total governmental activities	105,807,013	$ 0	15,720,525	5,176,310	4,894,915	(80,015,263)	—	(80,015,263)	—
Business-type activities:									
Water	3,595,733		4,159,350	—	1,159,909	—	$ 1,723,526	1,723,526	—
Sewer	4,912,853		7,170,533	—	486,010	—	2,743,690	2,743,690	—
Parking facilities	2,796,283		1,344,087	—	—	—	(1,452,196)	(1,452,196)	—
Total business-type activities	11,304,869		12,673,970	—	1,645,919	—	3,015,020	3,015,020	—
Total primary government	$117,111,882		$ 28,394,495	$ 5,176,310	$ 6,540,834	(80,015,263)	3,015,020	(77,000,243)	—
Component units:									
Landfill	$ 3,382,157		$ 3,857,858	$ —	$ 11,397	—	—	—	$ 487,098
Public school system	31,186,498		705,765	3,037,083	—	—	—	—	(26,543,650)
Total component units	$ 34,568,655		$ 4,563,623	$ 3,037,083	$ 11,397	—	—	—	(26,056,552)

Total revenues = program revenues + general revenues

Property taxes, levied for general purposes	51,695,573	—	51,695,573	—
Property taxes, levied for debt service	4,726,244	—	4,726,244	—
Franchise taxes	4,055,505	—	4,055,505	—
Public service taxes	8,969,887	—	8,969,887	—
Payment from Sample City	—	—	—	21,893,273
Grants and contributions not restricted to specific programs	1,457,820	—	1,457,820	6,461,708
Investment earnings	1,958,144	601,349	2,559,493	881,763
Miscellaneous	884,907	104,925	989,832	22,464
Special item—gain on sale of park land	2,653,488	—	2,653,488	—
Transfers	501,409	(501,409)	—	—
Total general revenues, special items, and transfers	76,900,977	204,865	77,105,842	29,259,208
Change in net assets	(3,114,286)	3,219,885	105,599	3,202,656
Net assets—beginning	126,673,160	82,349,309	209,022,469	16,025,971
Net assets—ending	$123,558,874	$ 85,569,194	$ 209,128,068	$19,228,627

Functions/Programs	Expenses	Indirect Expenses Allocation	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Changes in Net Assets: Primary Government: Governmental Activities	Changes in Net Assets: Primary Government: Business-type Activities	Changes in Net Assets: Primary Government: Total	Changes in Net Assets: Component Units
Primary government:									
Governmental activities:									
General government	$ 9,571,410	$(5,580,878)	$ 3,146,915	$ 843,617	—	—	—	—	—
Public safety	34,844,749	4,059,873	1,198,855	1,307,693	$ 62,300	$(36,335,774)	—	$(36,335,774)	—
Public works	10,128,538	3,264,380	850,000	—	2,252,615	(10,290,303)	—	(10,290,303)	—
Engineering services	1,299,645	111,618	704,793	—	—	(706,470)	—	(706,470)	—
Health and sanitation	6,738,672	558,088	5,612,267	575,000	—	(1,109,493)	—	(1,109,493)	—
Cemetery	735,866	55,809	212,496	—	—	(579,179)	—	(579,179)	—
Culture and recreation	11,532,350	1,858,966	3,995,199	2,450,000	—	(6,946,117)	—	(6,946,117)	—
Community development	2,994,389	1,740,265	—	—	2,580,000	(2,154,654)	—	(2,154,654)	—
Education (payment to school dist	21,893,273	—	—	—	—	(21,893,273)	—	(21,893,273)	—
Interest on long-term debt	6,068,121	(6,068,121)	—	—	—	—	—	—	—
Total governmental activities	105,807,013	$ 0	15,720,525	5,176,310	4,894,915	(80,015,263)	—	(80,015,263)	—
Business-type activities:									
Water	3,595,733		4,159,350	—	1,159,909	—	$ 1,723,526	1,723,526	—
Sewer	4,912,853		7,170,533	—	486,010	—	2,743,690	2,743,690	—
Parking facilities	2,796,283		1,344,087	—	—	—	(1,452,196)	(1,452,196)	—
Total business-type activities	11,304,869		12,673,970	—	1,645,919	—	3,015,020	3,015,020	—
Total primary government	$117,111,882		$28,394,495	$ 5,176,310	$ 6,540,834	(80,015,263)	3,015,020	(77,000,243)	—
Component units:									
Landf									$ 487,098
Public									(26,543,650)
Total cor									(26,056,552)

You can easily remove special & extraordinary items and transfers

Property taxes, levied for general purposes	51,693,573	—	51,693,573	—
Property taxes, levied for debt service	4,726,244	—	4,726,244	—
Franchise taxes	4,055,505	—	4,055,505	—
Public service taxes	8,969,887	—	8,969,887	—
Payment from Sample City	—	—	—	21,893,273
Grants and contributions not restricted to specific programs	1,457,820	—	1,457,820	6,461,708
Investment earnings	1,958,144	601,349	2,559,493	881,763
Miscellaneous	884,907	104,925	989,832	22,464
Special item—gain on sale of park land	2,653,488	—	2,653,488	—
Transfers	501,409	(501,409)	—	—
Total general revenues, special items, and transfers	76,900,977	204,865	77,105,842	29,259,208
Change in net assets	(3,114,286)	3,219,885	105,599	3,202,656
Net assets—beginning	126,673,160	82,349,309	209,022,469	16,025,971
Net assets—ending	$123,558,874	$ 85,569,194	$ 209,128,068	$19,228,627

When indirect expense information is provided, you have the option to use a more complete accounting of service costs: direct expenses + indirect expenses

Functions/Programs	Expenses	Indirect Expenses Allocation	Charges Servic	Program Revenues: Operating	Program Revenues: Capital	Changes in Net Assets: Primary Government			
Primary government:									
Governmental activities:									
General government	$ 9,571,410	$(5,580,878)	$ 3,146,						
Public safety	34,844,749	4,059,873	1,198,						
Public works	10,128,538	3,264,380	850,						
Engineering services	1,299,645	111,618	704,						
Health and sanitation	6,738,672	558,088	5,612,						
Cemetery	735,866	55,809	212,						
Culture and recreation	11,532,350	1,858,966	3,995,						
Community development	2,994,389	1,740,265							
Education (payment to school dist	21,893,273	—							
Interest on long-term debt	6,068,121	(6,068,121)							
Total governmental activities	105,807,013	$ 0	15,720,						
Business-type activities:									
Water	3,595,733		4,159,350	—	1,159,909	—	$ 1,723,526	1,723,526	—
Sewer	4,912,853		7,170,533	—	486,010	—	2,743,690	2,743,690	—
Parking facilities	2,796,283		1,344,087	—	—	—	(1,452,196)	(1,452,196)	—
Total business-type activities	11,304,869		12,673,970	—	1,645,919	—	3,015,020	3,015,020	—
Total primary government	$117,111,882		$28,394,495	$ 5,176,310	$ 6,540,834	(80,015,263)	3,015,020	(77,000,243)	—
Component units:									
Landfill	$ 3,382,157		$ 3,857,858	$ —	$ 11,397	—	—	—	$ 487,098
Public school system	31,186,498		705,765	3,937,083	—	—	—	—	(26,543,650)
Total component units	$ 34,568,655		$ 4,563,623	$ 3,937,083	$ 11,397	—	—	—	(26,056,552)
General revenues:									
Taxes:									
Property taxes, levied for general purposes						51,693,573	—	51,693,573	—
Property taxes, levied for debt service						4,726,244	—	4,726,244	—
Franchise taxes						4,055,505	—	4,055,505	—
Public service taxes						8,969,887	—	8,969,887	—
Payment from Sample City						—	—	—	21,893,273
Grants and contributions not restricted to specific programs						1,457,820	—	1,457,820	6,461,708
Investment earnings						1,958,144	601,349	2,559,493	881,763
Miscellaneous						884,907	104,925	989,832	22,464
Special item—gain on sale of park land						2,653,488	—	2,653,488	—
Transfers						501,409	(501,409)	—	—
Total general revenues, special items, and transfers						76,900,977	204,865	77,105,842	29,259,208
Change in net assets						(3,114,286)	3,219,885	105,599	3,202,656
Net assets—beginning						126,673,160	82,349,309	209,022,469	16,025,971
Net assets—ending						$123,558,874	$ 85,569,194	$ 209,128,068	$19,228,627

• See the "bottom line" for the government.

For its governmental activities

For its business-type activities

For the government as a whole.

General			
Taxe			
Pr	154,108,322	—	154,108,322
Property taxes, levied for debt service	16,860,557	—	16,860,557
State	176,265,211	—	176,265,211
Inves	7,397,103	312,271	7,709,374
Special	1,367,341	—	1,367,341
Total general revenues and special item	355,998,534	312,271	356,310,805
Change in net assets	19,075,190	1,266,712	20,341,902
Net assets—beginning	272,487,968	11,132,124	283,620,092
Net assets—ending	$ 291,563,158	$ 12,398,836	$ 303,961,994

Financial Aspects of Economic Condition

- Common-size ratios
- Financial position
- Liquidity & Solvency
- Fiscal capacity
- Risk & exposure
- Other

Common-size Ratios

- Percentage change and percentage distribution
- In most cases, the first step in analysis
- Raises red flags, highlights potentially important issues
- This approach is at the heart of management's discussion & analysis, the narrative section governments are now required to present in front of their financial statements

Common-size Ratios

- Percentage distribution
  - (individual element amount ÷ total category amount) × 100
- Percentage change
  - [(current year amount – earlier year amount) ÷ earlier year amount] × 100

From the MD&A of the City of Orlando's 2002 CAFR

	Governmental Activities		Business-type Activities		Total Primary Government	
	2002	2001	2002	2001	2002	2001
REVENUES						
Program revenues:						
Charges for services	$ 29.0	$ 33.9	$ 98.7	$ 98.5	$ 127.7	$ 132.4
Federal grants and contributions	15.3	16.9			16.9	15.3
State grants and entitlements	4.4	2.7			4.4	2.7
General revenues:						
Property taxes	68.6	69.0			68.6	69.0
Utility Services Taxes	39.2	31.8			39.2	31.8
Sales Tax	24.0	25.1			24.0	25.1
Gas Tax	7.4	7.7			7.4	7.7
Franchise Fees and Occupational Taxes	27.2	25.8			27.2	25.8
OUC Contribution	28.2	32.1			28.2	32.1
Other Intergovernmental	18.7	17.0			18.7	17.0
Investment Income	8.5	14.5	7.9	15.6	16.4	30.1
Other general revenues	9.6	11.6			9.6	11.6
Total revenues	$ 280.1	$ 288.1	$ 106.6	$ 114.1	$ 388.3	$ 400.6

Percentage Distribution

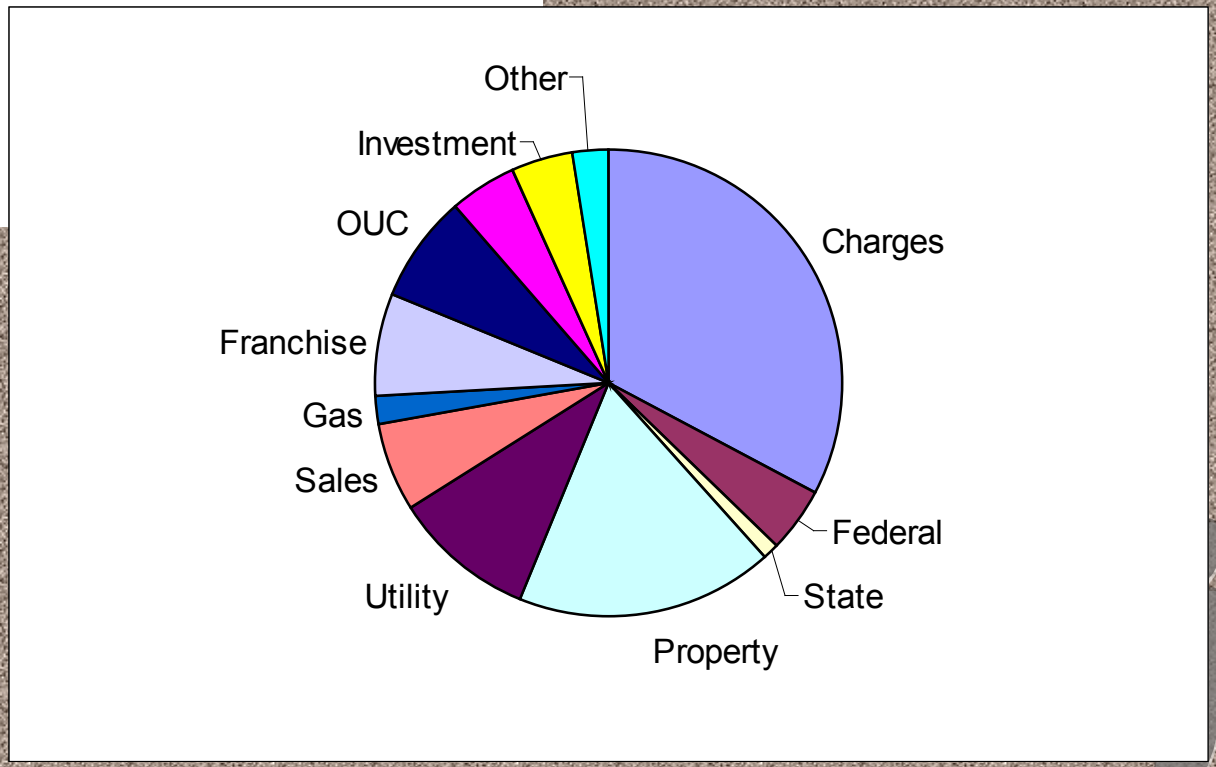
(individual element amount ÷ total category amount) × 100

(127.7 ÷ 388.3) × 100 = 32.89%

In other words…

Charges for services accounted for nearly one-third (32.89 percent) of the total revenue of the City of Orlando in fiscal year 2002.

Revenues	
Charges for services	32.89%
Federal grants and contributions	4.35%
State grants and entitlements	1.13%
Property taxes	17.67%
Utility Services Taxes	10.10%
Sales Tax	6.18%
Gas Tax	1.91%
Franchise Fees and Occupational Taxes	7.00%
OUC Contribution	7.26%
Other Intergovernmental	
Investment Income	
Other general revenues	
Total revenues	



From the MD&A of the City of Orlando's 2002 CAFR

	Governmental Activities		Business-type Activities		Total Primary Government	
	2002	2001	2002	2001	2002	2001
REVENUES						
Program revenues:						
Charges for services	$ 29.0	$ 33.9	$ 98.7	$ 98.5	$ 127.7	$ 132.4
Federal grants and contributions	15.3	16.9			16.9	15.3
State grants and entitlements	4.4	2.7			4.4	2.7
General revenues:						
Property taxes	68.6	69.0			68.6	69.0
Utility Services Taxes	39.2	31.8			39.2	31.8
Sales Tax	24.0	25.1			24.0	25.1
Gas Tax	7.4	7.7			7.4	7.7
Franchise Fees and Occupational Taxes	27.2	25.8			27.2	25.8
OUC Contribution	28.2	32.1			28.2	32.1
Other Intergovernmental	18.7	17.0			18.7	17.0
Investment Income	8.5	14.5	7.9	15.6	16.4	30.1
Other general revenues	9.6	11.6			9.6	11.6
Total revenues	$ 280.1	$ 288.1	$ 106.6	$ 114.1	$ 388.3	$ 400.6

Percentage Change

[(current year amount – earlier year amount) ÷ earlier year amount] × 100

$$[(39.2 - 31.8) \div 31.8] \times 100 = 23.27\%$$

In other words…

The City of Orlando's utility services taxes increased more than 23 percent from fiscal year 2001 to fiscal year 2002.

	Percentage Change 2000-01
REVENUES	
Program revenues:	
Charges for services	-3.55%
Federal grants and contributions	10.46%
State grants and entitlements	62.96%
General revenues:	
Property taxes	-0.58%
Utility Services Taxes	23.27%
Sales Tax	-4.38%
Gas Tax	-3.90%
Franchise Fees and Occupational Taxes	5.43%
OUC Contribution	-12.15%
Other Intergovernmental	10.00%
Investment Income	-45.51%
Other general revenues	-17.24%
Total revenues	-3.07%

Financial Aspects of Economic Condition

- Common-size ratios
- Financial position
- Liquidity & Solvency
- Fiscal capacity
- Risk & exposure
- Other

Financial Position

What is the government's *present* financial standing/health, and how has it changed?

- Net assets, and change in net assets
- Net assets ÷ total expenses
- Change in net assets ÷ total expenses

Financial position: Unrestricted net assets divided by total revenues

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	$ 13,597,899	$ 10,279,143	$ 23,877,042	$ 303,935
Investments	27,365,221	—	27,365,221	7,428,952
Receivables (net)	12,833,132	3,609,615	16,442,747	4,042,290
Internal balances	175,000	(175,000)	—	—
Inventories	322,149	126,674	448,823	83,697
Capital assets, net (Note 1)	170,022,760	151,388,751	321,411,511	37,744,786
Total assets	224,316,161	165,229,183	389,545,344	49,603,660
LIABILITIES				
Accounts payable	6,783,310	751,430	7,534,740	1,803,332
Deferred revenue	1,435,599	—	1,435,599	38,911
Noncurrent liabilities (Note 2):				
Due within one year	9,236,000	4,426,286	13,662,286	1,426,639
Due in more than one year	83,302,378	74,482,273	157,784,651	27,106,151
Total liabilities	100,757,287	79,659,989	180,417,276	30,375,033
NET AS				
Invested	103,711,386	73,088,574	176,799,960	15,906,392
Restricte				
Capital projects	11,705,864	—	11,705,864	492,445
Debt service	3,020,708	1,451,996	4,472,704	—
Community development projects	4,811,043	—	4,811,043	—
Other purposes	3,214,302	—	3,214,302	—
Unrestricted (deficit)	(2,904,429)	11,028,624	8,124,195	2,829,790
Total net assets	$ 123,558,874	$ 85,569,194	$ 209,128,068	$ 19,228,627

8,124,195

Financial position: Unrestricted net assets divided by total revenues

Functions/Programs	Expenses	Indirect Expenses Allocation	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Changes in Net Assets: Primary Government: Governmental Activities	Changes in Net Assets: Primary Government: Business-type Activities	Changes in Net Assets: Primary Government: Total	Changes in Net Assets: Component Units
Primary government:									
Governmental activities:									
General government	$ 9,571,410	$(5,580,878)	$ 3,146,915	$ 843,617	—	—	—	—	—
Public safety	34,844,749	4,059,873	1,198,855	1,307,693	$ 62,300	$(36,335,774)	—	$(36,335,774)	—
Public works	10,128,538	3,264,380	850,000	—	2,252,615	(10,290,303)	—	(10,290,303)	—
Engineering services	1,299,645	111,618	704,793	—	—	(706,470)	—	(706,470)	—
Health and sanitation	6,738,672	558,088	5,612,267	575,000	—	(1,109,493)	—	(1,109,493)	—
Cemetery	735,866	55,809	212,496	—	—	(579,179)	—	(579,179)	—
Culture and recreation	11,532,350	1,858,966	3,995,199	2,450,000	—	(6,946,117)	—	(6,946,117)	—
Community development	2,994,389	1,740,265	—	—	2,580,000	(2,154,654)	—	(2,154,654)	—
Education (payment to school dist	21,893,273	—	—	—	—	(21,893,273)	—	(21,893,273)	—
Interest on long-term debt	6,068,121	(6,068,121)	—	—	—	—	—	—	—
Total governmental activities	105,807,013	$ 0	15,720,525	5,176,310	4,894,915	(80,015,263)	—	(80,015,263)	—
Business-type activities:									
Water	3,595,733		4,159,350	—	1,159,909	—	$ 1,723,526	1,723,526	—
Sewer	4,912,853		7,170,533	—	486,010	—	2,743,690	2,743,690	—
Parking facilities	2,796,283		1,344,087	—	—	—	(1,452,196)	(1,452,196)	—
Total business-type activities	11,304,869		[illegible]		[illegible]	—	3,015,020	3,015,020	—
Total primary government	$117,111,882		$28,394,495	$ 5,176,310	$ 6,540,834	(80,015,263)	3,015,020	(77,000,243)	—
Component units:									
Landfill	$ 3,382,157		$ 3,857,858	$ —	$ 11,397	—	—	—	$ 487,098
Public school system	31,186,498		705,765	3,937,083	—	—	—	—	(26,543,650)
Total component units	$ 34,568,655		$ 4,563,623	$ 3,937,083	$ 11,397	—	—	—	(26,056,552)

$$\frac{8,124,195}{117,217,481} = 0.069$$

			693,573	—
Property taxes, levied for debt service	4,726,244	—	4,726,244	—
Franchise taxes	4,055,505	—	4,055,505	—
Public service taxes	8,969,887	—	8,969,887	—
Payment from Sample City	—	—	—	21,893,273
Grants and contributions not restricted to specific programs	1,457,820	—	1,457,820	6,461,708
Investment earnings	1,958,144	601,349	2,559,493	881,763
Miscellaneous	884,907	104,925	989,832	22,464
Special item—gain on sale of park land	2,653,488	—	2,653,488	—
Transfers	501,409	(501,409)		—
Total general revenues, special items, and transfers	76,900,977	204,865	77,105,842	29,259,208
Change in net assets	(3,114,286)	3,219,885	[illegible]	3,202,656
Net assets—beginning	126,673,160	82,349,309	209,022,469	16,025,971
Net assets—ending	$123,558,874	$ 85,569,194	$ 209,128,068	$19,228,627

In other words…

Unrestricted net assets were equal to less than 7 percent of annual revenues.

Change in financial position: Change in net assets divided by total expenses

Functions/Programs	Expenses	Indirect Expenses Allocation	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Changes in Net Assets: Primary Government: Governmental Activities	Changes in Net Assets: Primary Government: Business-type Activities	Changes in Net Assets: Primary Government: Total	Changes in Net Assets: Component Units
Primary government:									
Governmental activities:									
General government	$ 9,571,410	$(5,580,878)	$ 3,146,915	$ 843,617	—	—	—	—	—
Public safety	34,844,749	4,059,873	1,198,855	1,307,693	$ 62,300	$(36,335,774)	—	$(36,335,774)	—
Public works	10,128,538	3,264,380	850,000	—	2,252,615	(10,290,303)	—	(10,290,303)	—
Engineering services	1,299,645	111,618	704,793	—	—	(706,470)	—	(706,470)	—
Health and sanitation	6,738,672	558,088	5,612,267	575,000	—	(1,109,493)	—	(1,109,493)	—
Cemetery	735,866	55,809	212,496	—	—	(579,179)	—	(579,179)	—
Culture and recreation	11,532,350	1,858,966	3,995,199	2,450,000	—	(6,946,117)	—	(6,946,117)	—
Community development	2,994,389	1,740,265	—	—	2,580,000	(2,154,654)	—	(2,154,654)	—
Education (payment to school dist	21,893,273	—	—	—	—	(21,893,273)	—	(21,893,273)	—
Interest on long-term debt	6,068,121	(6,068,121)	—	—	—	—	—	—	—
Total governmental activities	105,807,013	$ 0	15,720,525	5,176,310	4,894,915	(80,015,263)	—	(80,015,263)	—
Business-type activities:									
Water	3,595,733		4,159,350	—	1,159,909	—	$ 1,723,526	1,723,526	—
Sewer	4,912,853		7,170,533	—	486,010	—	2,743,690	2,743,690	—
Parking facilities	2,796,283		1,344,087	—	—	—	(1,452,196)	(1,452,196)	—
Total business-type activities	11,304,869		12,673,970	—	1,645,919	—	3,015,020	3,015,020	—
Total primary government	$117,111,882		$28,394,495	$ 5,176,310	$ 6,540,834	(80,015,263)	3,015,020	(77,000,243)	—
Component units:									
Landfill	$ 3,382,157		$ 3,857,858	$ —	$ 11,397	—	—	—	$ 487,098
Public school system	31,186,498		705,765	3,937,083	—	—	—	—	(26,543,650)
Total component units	$ 34,568,655		$ 4,563,623	$ 3,937,083	$ 11,397	—	—	—	(26,056,552)

105,599 117,111,882 = 0.0009

			573	—
Property taxes, levied for debt service	4,726,244	—	4,726,244	—
Franchise taxes	4,055,505	—	4,055,505	—
Public service taxes	8,969,887	—	8,969,887	—
Payment from Sample City	—	—	—	21,893,273
Grants and contributions not restricted to specific programs	1,457,820	—	1,457,820	6,461,708
Investment earnings	1,958,144	601,349	2,559,493	881,763
Miscellaneous	884,907	104,925	989,832	22,464
Special item—gain on sale of park land	2,653,488	—	2,653,488	—
Transfers	501,409	(501,409)	—	—
Total general revenues, special items, and transfers	76,900,977	204,865	77,105,842	29,259,208
Change in net assets	(3,114,286)	3,219,885	105,599	3,202,656
Net assets—beginning	126,673,160	82,349,309	209,022,469	16,025,971
Net assets—ending	$123,558,874	$ 85,569,194	$ 209,128,068	$19,228,627

In other words…

The total change in net assets was equal to less than one-tenth of one percent of total expenses. They barely broke even.

Financial Position: Additional Ratios

- Net assets ÷ total revenues
- Net assets ÷ total operating revenues
- Change in net assets ÷ total revenues
- Change in net assets ÷ total operating revenues
- Fund balance ÷ total expenditures
- Fund balance ÷ total revenues
- Unreserved fund balance ÷ total revenues

Change in financial position: Unreserved fund balance divided by total expenditures

	General	HUD Programs	Community Redevelopment	Route 7 Construction	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	$ 3,418,485	$ 1,236,523	$ —	$ —	$ 5,606,792	$ 10,261,800
Investments	—	—	13,262,695	10,467,037	3,485,252	27,214,984
Receivables, net	3,644,561	2,953,438	353,340	11,000	10,221	6,972,560
Due from other funds	1,370,757	—	—	—	—	1,370,757
Receivables from other governments	—	119,059	—	—	1,596,038	1,715,097
Liens receivable	791,926	3,195,745	—	—	—	3,987,671
Inventories	182,821	—	—	—	—	182,821
Total assets	$9,408,550	$ 7,504,765	$ 13,616,035	$10,478,037	$ 10,698,303	$ 51,705,690
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	$3,408,680	$ 129,975	$ 190,548	$ 1,104,632	$ 1,074,831	$ 5,908,666
Due to other funds	—	25,369	—	—	—	25,369
Payable to other governments	94,074	—	—	—	—	94,074
Deferred revenue	4,250,430	6,273,045	250,000	11,000	—	10,784,475
Total liabilities (Note 2)	7,753,184	6,428,389	440,548	1,115,632	1,074,831	16,812,584
Fund balances:						
Reserved for:						
Inventories	182,821	—	—	—	—	182,821
Liens receivable	791,926	—	—	—	—	791,926
Encumbrances	40,292	41,034	119,314	5,792,587	1,814,122	7,807,349
Debt service	—				3,832,062	3,832,062
Other purposes	—				1,405,300	1,405,300
Unreserved, reported in:						
General fund	640,327	—	—	—	—	640,327
Special revenue funds		1,035,342	—	—	1,330,718	2,366,060
Capital projects funds	—	—	13,056,173	3,569,818	1,241,270	17,867,261
Total fund balances	1,655,366	1,076,376	13,175,487	9,362,405	9,623,472	34,893,106
Total liabilities and fund balances	$ 9,408,550	$ 7,504,765	$ 13,616,035	$ 10,478,037	$ 10,698,303	

Amounts reported for *governmental activities* in the statement of net assets are different because (see Note 4, also):

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	161,082,708
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	9,348,876
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net as	2,994,691
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds (see Note 4a).	(84,760,507)
Net assets of governmental activities	$ 123,558,874

640,327

Change in financial position: Unreserved fund balance divided by total expenditures

	General	HUD Programs	Community Redevelopment	Route 7 Construction	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes	$ 51,173,436	$ —	$ —	$ —	$ 4,680,192	$ 55,853,628
Franchise taxes	4,055,505	—	—	—	—	4,055,505
Public service taxes	8,969,887	—	—	—	—	8,969,887
Fees and fines	606,946	—	—	—	—	606,946
Licenses and permits	2,287,794	—	—	—	—	2,287,794
Intergovernmental	6,119,938	2,578,191	—	—	2,830,916	11,529,045
Charges for services	11,374,460	—	—	—	30,708	11,405,168
Investment earnings	552,325	87,106	549,489	270,161	364,330	1,823,411
Miscellaneous	881,874	66,176	—	2,939	94	951,083
Total revenues	86,022,165	2,731,473	549,489	273,100	7,906,240	97,482,467
EXPENDITURES						
Current:						
General government	8,630,835	—	417,814	16,700	121,052	9,186,401
Public safety	33,729,623	—	—	—	—	33,729,623
Public works	4,975,775	—	—	—	3,721,542	8,697,317
Engineering services	1,299,645	—	—	—	—	1,299,645
Health and sanitation	6,070,032	—	—	—	—	6,070,032
Cemetery	706,305	—	—	—	—	706,305
Culture and recreation	11,411,685	—	—	—	—	11,411,685
Community development	—	2,954,389	—	—	—	2,954,389
Education—payment to school district	21,893,273	—	—	—	—	21,893,273
Debt service:						
Principal	—	—	—	—	3,450,000	3,450,000
Interest and other charges	—	—	—	—	5,215,151	5,215,151
Capital outlay	—	—	2,246,671	11,281,769	3,190,209	16,718,649
Total expenditures	88,717,173	2,954,389	2,664,485	11,298,469	15,697,954	121,332,470
Excess (deficiency) of revenues over expenditures	(2,695,008)	(222,916)	(2,114,996)	(11,025,369)	(7,791,714)	(23,850,003)
OTHER FINANCING SOURCES (USES)						
Refunding bonds	—	—	—	—	38,045,000	38,045,000
Long-term capital-related debt	—	—	17,529,560	—	1,300,000	18,829,560
Payment to bond refunding escrow agent	—	—	—	—	(37,284,144)	(37,284,144)
Transfers in	129,323	—	—	—	5,551,187	5,680,510
Transfers out	(2,163,759)	(348,046)	(2,273,187)	—	(219,076)	(5,004,068)
					2,967	20,266,858
					—	3,476,488
and special items	1,442,052	(348,046)	15,256,373	0	7,392,967	23,743,346
Net change in fund balances	(1,252,956)	(570,962)	13,141,377	(11,025,369)	(398,747)	(106,657)
Fund balances—beginning	2,908,322	1,647,338	34,110	20,387,774	10,022,219	34,999,763
Fund balances—ending	$ 1,655,366	$ 1,076,376	$ 13,175,487	$ 9,362,405	$ 9,623,472	$ 34,893,106

640,327 88,717,173 = 0.0072

In other words…

The government's general fund unreserved fund balance was equal to slightly more than seven-tenths of one percent of total expenditures.

Multiply by 365, and…

In other words…

The government's readily available resources were not enough to keep services running for even three days (2.63 days, to be more exact).

Warning #1 about Infrastructure Assets

- During the transition from current reporting to Statement 34, a government may take up to four extra years beyond the implementation deadline to report *existing general infrastructure assets.*
- What does this mean? Not all of a governments assets may be in the statement of net assets, which could affect financial position significantly.

Warning #2 about Infrastructure Assets

- A government may elect to report *general infrastructure assets* using the "modified approach" if it can demonstrate that it is maintaining qualifying infrastructure assets approximately at or above a predetermined condition level that it established.
- Instead of depreciating historical cost, these governments will report the cost of preserving the assets at the predetermined condition level

Warning #2 about Infrastructure Assets

- What does this mean? Not entirely certain yet, but could mean reporting lower annual expenses in the statement of activities and higher net value of assets on the statement of net assets (the latter would make financial position look better).

Warnings about Infrastructure Assets: How do you know?

- First of all, check the summary of significant accounting practices (usually the first note disclosure). The government will explain there (1) if it is reporting "retroactively" for existing general infrastructure assets and (2) if it is using the modified approach, and for which assets.
- Better yet, governments using the modified approach make additional disclosures…

Modified Approach Disclosures

Governments present condition information from their last three assessments.

Condition assessments must be performed at least once every three years.

Condition Rating of the City's Street System

	Percentage of Lane-miles in Good or Better Condition			Percentage of Lane-miles in Substandard Condition		
	2002	2001	2000	2002	2001	2000
Main arterial	93.2%	91.5%	92.0%	1.7%	2.6%	3.1%
Arterial	85.2%	81.6%	84.3%	3.5%	6.4%	5.9%
Secondary	87.2%	84.5%	86.8%	2.1%	3.4%	3.8%
Overall system	88.2%	85.5%	87.3%	2.2%	3.6%	3.9%

Modified Approach Disclosures

Comparison of Needed-to-Actual Maintenance/Preservation (in thousands)

	2002	2001	2000	1999	1998
Main arterial:					
Needed	$2,476	$2,342	$2,558	$2,401	$2,145
Actual	2,601	2,552	2,432	2,279	2,271
Arterial:					
Needed	1,485	1,405	1,535	1,441	1,287
Actual	1,560	1,531	1,459	1,367	1,362
Secondary:					
Needed	990	937	1,023	960	858
Actual	1,040	1,021	972	911	908
Overall system:					
Needed	$4,951	$4,684	$5,116	$4,802	$4,290
Actual	$5,201	$5,104	$4,863	$4,557	$4,541
Difference	$250	$420	($253)	($245)	$251

Information must be provided for the last five years.

Comparison of maintenance and preservation spending *needed* to maintain the predetermined condition level (based on asset management system estimates) with what a government *actually* spent.

Financial Aspects of Economic Condition

- Common-size ratios
- Financial position
- Liquidity & Solvency
- Fiscal capacity
- Risk & exposure
- Other

Liquidity

Does the government have the means available to cover its *existing* obligations in the short run?

Liquidity

- Current ratio
  - Current assets ÷ current liabilities
- Quick ratio
  - (cash + current investments) ÷ current liabilities

Liquidity: Current ratio

Current assets
current liabilities

	Activities	Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	$ 13,597,899	$ 10,279,143	$ 23,877,042	$ 303,935
Investments	27,365,221	—	27,365,221	7,428,952
Receivables (net)	12,833,132	3,609,615	16,442,747	4,042,290
Internal balances	175,000	(175,000)	—	—
Inventories	322,149	126,674	448,823	83,697
Capital assets, net (Note 1)	170,022,760	151,[illegible]51	321,411,511	37,744,786
Total assets	224,316,161	165,[illegible]33	389,545,344	49,603,660
LIABILITIES				
Accounts payable	6,783,310	751,430	7,534,740	1,803,332
Deferred revenue	1,435,599	—	1,435,599	38,911
Noncurrent liabilities (Note 2):				
Due within one year	9,236,000	4,426,286	13,662,286	1,426,639
Due in more than one year	83,302,378	74,482,273	157,784,651	27,106,151
Total liabilities	100,757,287	79,659,989	180,417,276	30,375,033
NET ASSETS				
Invested in capital assets, net of related debt	103,711,386	73,088,574	[illegible]	15,906,392
Restricted for:				
Capital projects	11,705,864	—	[illegible]	492,445
Debt service	3,020,708	1,451,996	4,472,704	—
Community development projects	4,811,043	—	4,811,043	—
Other purposes	3,214,302	—	3,214,302	—
Unrestricted (deficit)	(2,904,429)	11,028,624	8,124,195	2,829,790
Total net assets	$ 123,558,874	$ 85,569,194	$ 209,128,068	$ 19,228,627

$= 3.01$

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	$ 13,597,899	$ 10,279,143	$ 23,877,042	$ 303,935
Investments	27,365,221	—	27,365,221	7,428,952
Receivables (net)	12,833,132	3,609,615	16,442,747	4,042,290
Internal balances	175,000	(175,000)	—	—
Inventories	322,149	126,674	448,823	83,697
Capital assets, net (Note 1)	170,022,760	151,388,751	321,411,511	37,744,786
Total assets	224,316,161	165,229,183	389,545,344	49,603,660
LIABILITIES				
Accounts payable	6,783,310	751,430	7,534,740	1,803,332
Deferred revenue	1,435,599	—	1,435,599	38,911
Noncurrent liabilities (Note 2):				
Due within one year	9,236,000	4,426,286	13,662,286	1,426,639
Due in more than one year	83,302,378	74,482,273	157,784,651	27,106,151
Total liabilities	100,757,287	79,659,989	180,417,276	30,375,033
	103,711,386	73,088,574	176,799,960	15,906,392
	11,705,864	—	11,705,864	492,445
	3,020,708	1,451,996	4,472,704	—
	4,811,043	—	4,811,043	—
	3,214,302	—	3,214,302	—
	(2,904,429)	11,028,624	8,124,195	2,829,790
	$ 123,558,874	$ 85,569,194	$ [illegible]	[illegible],228,627

Remember not only to remove deferred revenues from the denominator, but also the corresponding assets in the numerator.

$= 3.15$

In other words…

The government's current resources were equal to more than three times the debts that would come due during the next year.

Words of wisdom regarding financial position & liquidity ratios

Making comparisons depends a lot on the timing of cash flows. For instance:

- Government A receives its major state grant payments in the last month of the fiscal year. Its financial position and liquidity ratios may look much better than those of…
- Government B, which collects most of its property taxes in the first month of the year.

Solvency

Does the government have the means available to cover its *existing* obligations in the *long* run?

Solvency: Leverage

- Debt-to-assets ratio
  - Total liabilities ÷ total assets
- Debt-to-net-assets ratio
  - Total liabilities ÷ net assets

Leverage: Debt-to-net-assets

Total liabilities net assets

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	$ 13,597,899	$ 10,279,143	$ 23,877,042	$ 303,935
Investments	27,365,221	—	27,365,221	7,428,952
Receivables (net)	12,833,132	3,609,615	16,442,747	4,042,290
Internal balances	175,000	(175,000)	—	—
Inventories	322,149	126,674	448,823	83,697
Capital assets, net (Note 1)	170,022,760	151,388,751	321,411,511	37,744,786
Total assets	224,316,161	165,229,183	389,545,344	49,603,660
LIABILITIES				
Accounts payable	6,783,310	751,430	7,534,740	1,803,332
Deferred revenue	1,435,599	—	1,435,599	38,911
Noncurrent liabilities (Note 2):				
Due within one year	9,236,000	4,426,286	13,662,286	1,426,639
Due in more than one year	83,302,378	74,482,273	157,784,651	27,106,151
Total liabilities	100,757,287	79,659,989	180,417,276	30,375,033
NET ASSETS				
Invested in capital assets, net of related debt	103,711,386	73,088,574	176,799,960	15,906,392
Restricted for:				
Capital projects	11,705,864		11,705,8	
Debt service	3,020,708	1,451,99	4,472,7	
Community development projects	4,811,043		4,811,0	
Other purposes	3,214,302	—	3,214,302	—
Unrestricted (deficit)	(2,904,429)	11,028,624	8,124,195	2,829,790
Total net assets	$ 123,558,874	$ 85,569,194	$ 209,128,068	$ 19,228,627

$= 0.863$

In other words…

More than 86 percent of the government's net assets would have to be liquidated to satisfy its liabilities immediately.

Is that realistic?

Almost 85 percent of its net assets are invested in capital assets.

However, 95 percent of its liabilities are long-term debts.

Solvency: Coverage

- Times-interest-earned
  - (cash flow from operations + interest expense) ÷ interest expense
- Debt service coverage
  - (cash flow from operations + debt service) ÷ debt service

Problem with Coverage Ratios

There is still no cash flow statement for the government as a whole; only for the proprietary funds.

Consequently, an elegantly simple ratio like this:

(cash flow from operations + interest expense) ÷ interest expense

…becomes this…

(general fund revenues + special revenue fund revenues – general fund current expenditures – special revenue fund current expenditures + enterprise funds cash flows from operations + total interest on long-term debt for governmental and business-type activities) ÷ (total interest on long-term debt for governmental and business-type activities)

Solvency: Alternative Ratios

- Liabilities ÷ total revenues
- Liabilities ÷ personal income
- Liabilities ÷ property value
- Liabilities ÷ population
- Debt service ÷ total expenditures
- Debt service ÷ own-source revenues

Financial Aspects of Economic Condition

- Common-size ratios
- Financial position
- Liquidity & Solvency
- Fiscal capacity
- Risk & exposure
- Other

Fiscal Capacity

Does the government have the financial ability to finance needed services going forward?

Fiscal Capacity

- Debt per $100 of assessed property value
  - (total liabilities x 100) ÷ total assessed property value
- Debt per capita
  - Total liabilities ÷ population
- Property tax revenues per $100 of assessed value
  - (property tax revenues x 100) ÷ total assessed property value

Fiscal capacity: property tax revenues per $100 of assessed value

Functions/Programs	Expenses	Indirect Expenses Allocation	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Changes in Net Assets, Primary Government: Governmental Activities	Changes in Net Assets, Primary Government: Business-type Activities	Changes in Net Assets, Primary Government: Total	Component Units
Primary government:									
Governmental activities:									
General government	$ 9,571,410	$(5,580,878)	$ 3,146,915	$ 843,617	—	—	—	—	—
Public safety	34,844,749	4,059,873	1,198,855	1,307,693	$ 62,300	$(36,335,774)	—	$(36,335,774)	—
Public works							—	(10,290,303)	—
Engineering services							—	(706,470)	—
Health and sanitation							—	(1,109,493)	—
Cemetery							—	(579,179)	—
Culture and recreation							—	(6,946,117)	—
Community development							—	(2,154,654)	—
Education (payment to school dist	21,893,273	—	—	—	—	(21,893,273)	—	(21,893,273)	—
Interest on long-term debt	6,068,121	(6,068,121)	—	—	—	—	—	—	—
Total governmental activities	105,807,013	$ 0	15,720,525	5,176,310	4,894,915	(80,015,263)	—	(80,015,263)	—
Business-type activities:									
Water	3,595,733		4,159,350	—	1,159,909	—	$ 1,723,526	1,723,526	—
Sewer	4,912,853		7,170,533	—	486,010	—	2,743,690	2,743,690	—
Parking facilities	2,796,283		1,344,087	—	—	—	(1,452,196)	(1,452,196)	—
Total business-type activities	11,304,869		12,673,970	—	1,645,919	—	3,015,020	3,015,020	—
Total primary government	$117,111,882		$28,394,495	$ 5,176,310	$ 6,540,834	(80,015,263)	3,015,020	(77,000,243)	—
Component units:									
Landfill	$ 3,382,157		$ 3,857,858	$ —	$ 11,397	—	—	—	$ 487,098
Public school system	31,186,498		705,765	3,937,083	—	—	—	—	(26,543,650)
Total component units	$ 34,568,655		$ 4,563,623	$ 3,937,083	$ 11,397	—	—	—	(26,056,552)
General revenues:									
Taxes:									
Property taxes, levied for general purposes						51,693,573	—	51,693,573	—
Property taxes, levied for debt service						4,726,244	—	4,726,244	—
Franchise taxes						4,055,505	—	4,055,505	—
Public service taxes						8,969,887	—	8,969,887	—
Payment from Sample City									21,893,273

(property tax revenues x 100)
total assessed property value

$$[(51{,}693{,}573 + 4{,}726{,}244) \times 100)$$

$$3{,}923{,}863{,}884 = 1.44$$

Fiscal Capacity: Caution!

- Be clear about definition of denominator, especially when it comes to property values!!
- Valuation systems differ from government to government, as does the assessment ratio—the percentage of assessed value to market value
- Makes comparisons difficult

Fiscal Capacity: Additional Ratios

- Debt per $1,000 of personal income
- Sales tax revenues ÷ total retail sales
- Income tax revenues ÷ total personal income
- Expenses & revenues per capita—both total and for specific client bases:
  - spending per pupil
  - state education aid per pupil
  - taxes per capita

Financial Aspects of Economic Condition

- Common-size ratios
- Financial position
- Liquidity & Solvency
- Fiscal capacity
- Risk & exposure
- Other

Risk and Exposure

Can the government withstand unforeseen financial difficulties?

Risk and Exposure

- Revenue dispersion (percentage distribution)
- Risk exposure ratio
  - (investment revenue + intergovernmental aid) ÷ property tax revenues
- Tax leverage ratio
  - operating expenses ÷ property tax revenues

Risk exposure ratio

(investment revenue + intergovernmental aid) property tax revenue

Functions/Programs	Expenses	Indirect Expenses Allocation	Program Revenu: Charges for Services	Operating Grants and Contributions					
Primary government:									
Governmental activities:									
General government	$ 9,571,410	$(5,580,878)	$ 3,146,915	$ 843,617					
Public safety	34,844,749	4,059,873	1,198,855	1,307,693	$ 62,300	$(36,335,774)	—	$(36,335,774)	—
Public works	10,128,538	3,264,380	850,000	—	2,252,615	(10,290,303)	—	(10,290,303)	—
Engineering services	1,299,645	111,618	704,793	—	—	(706,470)	—	(706,470)	—
Health and sanitation	6,738,672	558,088	5,612,267	575,000	—	(1,109,493)	—	(1,109,493)	—
Cemetery	735,866	55,809	212,496	—	—	(579,179)	—	(579,179)	—
Culture and recreation	11,532,350	1,858,966	3,995,199	2,450,000	—	(6,946,117)	—	(6,946,117)	—
Community development	2,994,389	1,740,265	—	—	2,580,000	(2,154,654)	—	(2,154,654)	—
Education (payment to school dist	21,893,273	—	—	—	—	(21,893,273)	—	(21,893,273)	—
Interest on long-term debt	6,068,121	(6,068,121)	—	—	—	—	—	—	—
Total governmental activities	105,807,013	$ 0	15,720,525	5,176,310	4,894,915	(80,015,263)	—	(80,015,263)	—
Business-type activities:									
Water	3,595,733		4,159,350	—	1,159,909	—	$ 1,723,526	1,723,526	—
Sewer	4,912,853		7,170,533	—	486,010	—	2,743,690	2,743,690	—
Parking facilities	2,796,283		1,344,087	—	—	—	(1,452,196)	(1,452,196)	—
Total business-type activities	11,304,869		12,673,970	—	1,645,919	—	3,015,020	3,015,020	—
Total primary government	$117,111,882		$28,394,495	$ 5,176,310	$ 6,540,834	(80,015,263)	3,015,020	(77,000,243)	—
Component units:									
Landfill	$ 3,382,157		$ 3,857,858	$ —	$ 11,397	—	—	—	$ 487,098
Public school system	31,186,498		705,765	3,937,083	—	—	—	—	(26,543,650)
Total component units	$ 34,568,655		$ 4,563,623	$ 3,937,083	$ 11,397	—	—	—	(26,056,552)
General revenues:									
Taxes:									
Property taxes, levied for general purposes						51,693,573	—	51,693,573	—
Property taxes, levied for debt service						4,726,244	—	4,726,244	—
Franchise taxes						4,055,505	—	4,055,505	—
Public service taxes						8,969,887	—	8,969,887	—
Payment from Sample City						—	—	—	21,893,273
Grants and contributions not restricted to specific programs						1,457,820	—	1,457,820	6,461,708
Investment earnings						1,958,144	601,349	2,559,493	881,763
Miscellaneous						884,907	104,925	989,832	22,464
Special item—gain on sale of park land						2,653,488	—	2,653,488	—
Transfers						501,409	(501,409)	—	—
Total general revenues, special items, and transfers						76,900,977	204,865	77,105,842	29,259,208
Change in net assets						(3,114,286)	3,219,885	105,599	3,202,656
Net assets—beginning						126,673,160	82,349,309	209,022,469	16,025,971
Net assets—ending						$123,558,874	$ 85,569,194	$ 209,128,068	$19,228,627

Risk exposure ratio

Functions/Programs	Expenses	Indirect Expenses Allocation	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Changes in Net Assets, Primary Government: Governmental Activities	Changes in Net Assets, Primary Government: Business-type Activities	Changes in Net Assets, Primary Government: Total	Changes in Net Assets: Component Units
Primary government:									
Governmental activities:									
General government	$ 9,571,410	$(5,580,878)	$ 3,146,915	$ 843,617	—	—	—	—	—
Public safety	34,844,749	4,059,873	1,198,855	1,307,693	$ 62,300	$(36,335,774)	—	$(36,335,774)	—
Public works	10,128,538	3,264,380	850,000	—	2,252,615	(10,290,303)	—	(10,290,303)	—
Business-type activities:									
Water	3,595,733		4,159,350	—	1,159,909	—	$ 1,723,526	1,723,526	—
Sewer	4,912,853		7,170,533	—	486,010	—	2,743,690	2,743,690	—
Parking facilities	2,796,283		1,344,087	—	—	—	(1,452,196)	(1,452,196)	—
Total business-type activities	11,304,869		12,673,970	—	1,645,919	—	3,015,020	3,015,020	—
Total primary government	$117,111,882		$28,394,495	$ 5,176,310	$ 6,540,834	(80,015,263)	3,015,020	(77,000,243)	—
Component units:									
Landfill	$ 3,382,157		$ 3,857,858	$ —	$ 11,397	—	—	—	$ 487,098
Public school system	31,186,498		705,765	3,937,083	—	—	—	—	(26,543,650)
Total component units	$ 34,568,655		$ 4,563,623	$ 3,937,083	$ 11,397	—	—	—	(26,056,552)
General revenues:									
Taxes:									
Property taxes, levied for general purposes						51,693,573	—	51,693,573	—
Property taxes, levied for debt service						4,726,244	—	4,726,244	—
Franchise taxes						4,055,505	—	4,055,505	—
Public service taxes						8,969,887	—	8,969,887	—
Payment from Sample City						—	—		21,893,273
Grants and contributions not restricted to specific programs						1,457,820	—	1,457,820	6,461,708
Investment earnings						1,958,144	601,349	2,559,493	881,763
Miscellaneous						884,907	104,925	989,832	22,464
Special item—gain on sale of park land						2,653,488	—	2,653,488	—
Transfers						501,409	(501,409)	—	—
Total general revenues, special items, and transfers						76,900,977	204,865	77,105,842	29,259,208
Change in net assets						(3,114,286)	3,219,885	105,599	3,202,656
Net assets—beginning						126,673,160	82,349,309	209,022,469	16,025,971
Net assets—ending						$123,558,874	$ 85,569,194	$ 209,128,068	$19,228,627

$$(2{,}559{,}493 + 5{,}176{,}310 + 4{,}894{,}915 + 1{,}475{,}820) \quad 56{,}419{,}817 = 0.25$$

In other words…

For every one percent decline in revenues beyond the government's control, property taxes would have to be raised one-quarter of one percent.

Tax leverage ratio

Operating expenses
property tax revenue

Functions/Programs	Expenses	Indirect Expenses Allocation	Program Revenu: Charges for Services	Operating Grants and Contributions					
Primary government:									
Governmental activities:									
General government	$ 9,571,410	$(5,580,878)	$ 3,146,915	$ 843,617	—	—	—	—	—
Public safety	34,844,749	4,059,873	1,198,855	1,307,693	$ 62,300	$(36,335,774)	—	$(36,335,774)	—
Public works	10,128,538	3,264,380	850,000	—	2,252,615	(10,290,303)	—	(10,290,303)	—
Community development	2,994,389	1,740,265	—	—	2,580,000	(2,154,654)	—	(2,154,654)	—
Education (payment to school dist	21,893,273	—	—	—	—	(21,893,273)	—	(21,893,273)	—
Interest on long-term debt	6,068,121	(6,068,121)	—	—	—	—	—	—	—
Total governmental activities	105,807,013	$ 0	15,720,525	5,176,310	4,894,915	(80,015,263)	—	(80,015,263)	—
Business-type activities:									
Water	3,595,733		4,159,350	—	1,159,909	—	$ 1,723,526	1,723,526	—
Sewer	4,912,853		7,170,533	—	486,010	—	2,743,690	2,743,690	—
Parking facilities	2,796,283		1,344,087	—	—	—	(1,452,196)	(1,452,196)	—
Total business-type activities	11,304,869		12,673,970	—	1,645,919	—	3,015,020	3,015,020	—
Total primary government	$117,111,882		$ 28,394,495	$ 5,176,310	$ 6,540,834	(80,015,263)	3,015,020	(77,000,243)	—
Component units:									
Landfill	$ 3,382,157		$ 3,857,858	$ —	$ 11,397	—	—	—	$ 487,098
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$$117{,}111{,}882 \quad 56{,}419{,}817 = 2.075$$

In other words…

For every one percent increase in operating spending, the government would have to increase property taxes almost 2.1 percent.

Risk and Exposure: Additional Ratios

- Property tax receivables ÷ current assets
- Property tax receivables ÷ property tax levy
- Uncollectable property taxes ÷ property tax levy

Financial Aspects of Economic Condition

- Common-size ratios
- Financial position
- Liquidity & Solvency
- Fiscal capacity
- Risk & exposure
- Other

Other Factors

- Pension and risk pool disclosures
  - Actuarial value of pension fund assets ÷ unfunded actuarial accrued liability
  - Unfunded actuarial accrued liability ÷ covered payroll
  - Actuarial pension contribution ÷ actuarially required contribution

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) –Entry Age (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b – a) / c)
12/31/W9*	$49,629	$52,838	$3,209	93.9%	$21,367	15.0%
12/31/X0	55,088	57,615	2,527	95.6	22,276	11.3
12/31/X1	59,262	62,817	3,555	94.3	23,551	15.1

Includes a ratio of the degree to which the pension plan is funded.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) –Entry Age (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b – a) / c)
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Indicates magnitude of unfunded liability by comparing it with annual payroll.

Other Factors

- Other sources of financial information
  - Budget documents
  - Official statements and bond prospectuses
  - News releases and articles
  - Websites (Census Bureau; state auditors and comptrollers)

Nonfinancial Aspects of Economic Condition

- Performance measures
- Demographic & socioeconomic information
- Physical capacity
- Management capability
- Willingness—management & voter

Other Factors: Additional Ratios

- Employees ÷ population
- Teachers (or administrative staff) ÷ student enrollment
- Unfunded pension liability ÷ assessed value (or revenues, personal income)
- Maintenance and repair expenses ÷ capital assets
- Capital expenditures ÷ capital assets
- Depreciation expense ÷ capital assets
- Accumulated depreciation ÷ capital assets

Comparisons: Building a Reference Group

	(a) Local City	(b) Average of 10 Cities	(a) ÷ (b) Index
Debt per $100 of assessed property value	$ 4.60	$ 5.26	0.875
Debt per $1,000 of personal income	$ 22.55	$ 27.19	0.829
Debt per capita	$ 2,006	$ 2,435	0.824
Property tax revenues ÷ assessed property value	$ 1.44	$ 1.17	1.231
Taxes per capita	$ 772	$ 706	1.093

Comparisons: Building a Reference Group

Local City
Index of Comparison with 10-City Average
Debt per $100 of Assessed Property Value
Fiscal Years 1997-2001

Fiscal Year	Index
1997	0.912
1998	0.885
1999	0.891
2000	0.882
2001	0.875

Economic Condition Analysis: Moving Forward

GASB Economic Condition Reporting project

- Revision of Statistical Section of the CAFR—final standard expected May 2004
- Developing a basic set of ratios

Resources for Financial Statement Users

Statement 34 Section of the GASB Website

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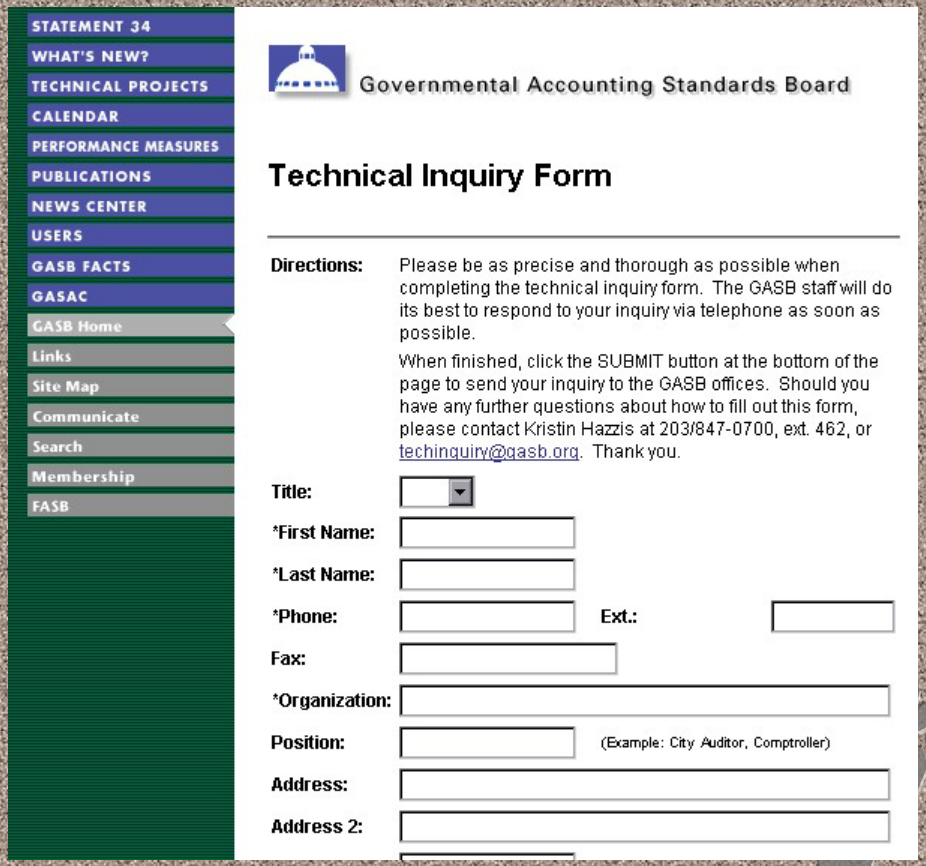

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STATEMENT 34
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Governmental Accounting Standards Board

The mission of the Governmental Accounting Standards Board is to establish and improve standards of state and local governmental accounting and financial reporting that will result in useful information for users of financial reports and guide and educate the public, including issuers, auditors, and users of those financial reports.

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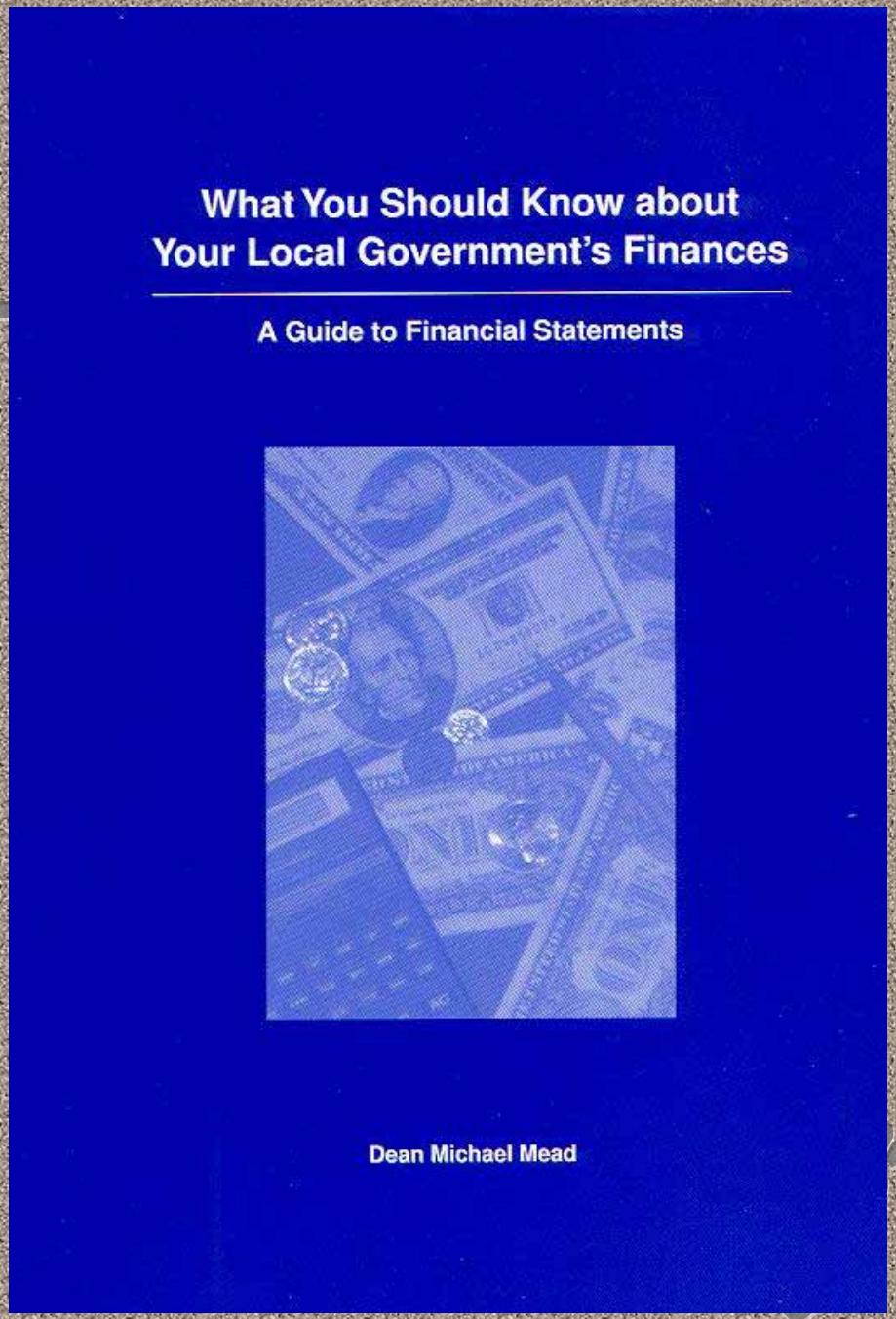
User Guides to Government Financial Statements



GASB User Guides

- GASB's first publications for the *users* of government financial statements: citizens, researchers, analysts, legislators and their staff
- Guides focus on the value of the information financial statements contain, and how it may be used to inform decisions, rather than on how to implement the standard

User Guide Features

A running story that helps the reader understand the concepts by relating them to personal financial decisions

INFORMATION ABOUT THE WHOLE GOVERNMENT

The typical local government's set of BASIC FINANCIAL STATEMENTS begins with the STATEMENT OF NET ASSETS and the STATEMENT OF ACTIVITIES. They are referred to collectively as the GOVERNMENT-WIDE FINANCIAL STATEMENTS because they encompass the whole government. (See Appendix E, p. E-6)

WHAT'S AHEAD?

- Find out what your government owns and how much it owes.
- Assess your government's present financial status and future outlook.

STATEMENT OF NET ASSETS

Penelope Wise is finally taking her dream vacation to Europe, but her fear of flying gets the better of her. She arranges a meeting with her accountant—Bill Meelater, CPA, of the firm Readum & Weape LLP—to "get her affairs in order." Bill suggests that Penny start by making two lists: The first will contain all of her property and possessions; the other will detail all of her debts. "This exercise will give you a general sense of where you stand financially," Bill says.

The statement of net assets essentially tells you what the government owns and owes at a given point in time, usually the last day of the FISCAL YEAR. All private- and public-sector organizations produce a similar statement, sometimes called a balance sheet or statement of financial position.

The statement of net assets compares the ASSETS the government owns with the LIABILITIES it owes as of the date on the statement. The NET ASSETS are what remain after the liabilities have been paid off or are otherwise satisfied. The statement is designed to display the basic accounting relationship: *assets minus liabilities equal net assets*. (See p. E-1) Therefore, the statement lists assets first, then liabilities, and finally net assets. (See Figure 1, an illustrative statement of net assets for a fictional government, Local City.)

As of December 31, 2000, Local City had assets totaling $389,545,344, liabilities of $180,417,276, and net assets of $209,128,068.

Short-run and long-run information

The sample statement in Figure 1 is prepared in an optional CLASSIFIED format, which categorizes the assets and liabilities as CURRENT and NONCURRENT and provides separate subtotals for each. This format is helpful for certain kinds of analyses (some of which will be discussed later). For example, if you want to assess your government's short-term financial needs, you may want to focus only on its most immediately available resources. The presence of ready subtotals makes it easier to identify the information you are interested in (and to calculate FINANCIAL RATIOS such as those in Appendix C).

the STATEMENT OF NET ASSETS reports what a government owns or controls (assets), what it owes (liabilities), and what is left over after assets have been used to satisfy liabilities (net assets)

the STATEMENT OF ACTIVITIES reports a government's expenses and revenues, as well as other changes in its net assets during the year

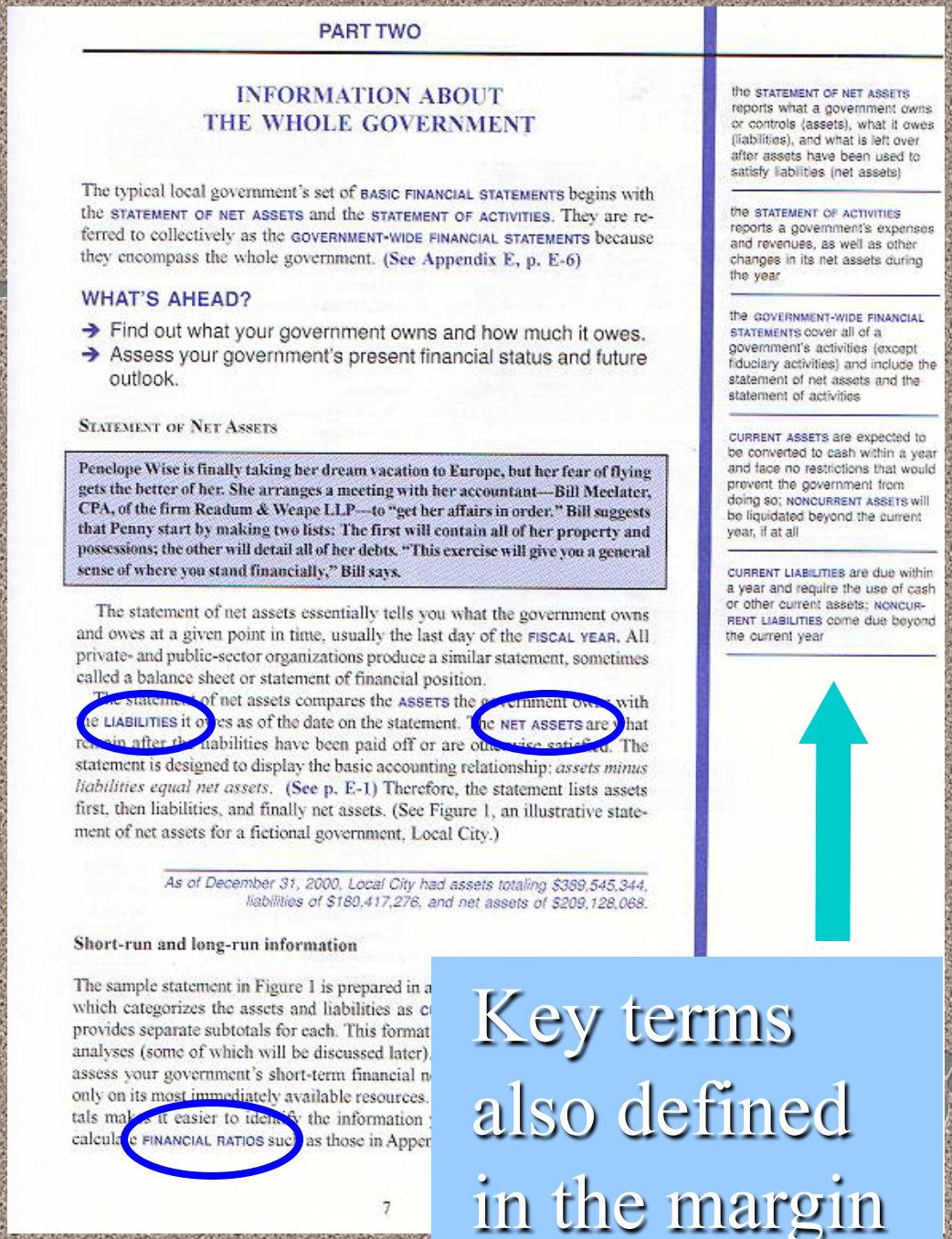
the GOVERNMENT-WIDE FINANCIAL STATEMENTS cover all of a government's activities (except fiduciary activities) and include the statement of net assets and the statement of activities

CURRENT ASSETS are expected to be converted to cash within a year and face no restrictions that would prevent the government from doing so; NONCURRENT ASSETS will be liquidated beyond the current year, if at all

CURRENT LIABILITIES are due within a year and require the use of cash or other current assets; NONCURRENT LIABILITIES come due beyond the current year

User Guide Features

Easy identification of terms that are defined in a glossary that accompanies the text



PART TWO

INFORMATION ABOUT THE WHOLE GOVERNMENT

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Key terms also defined in the margin

User Guide Features

Boxes and sidebars that explore further the issues raised in the text, provide more detailed definitions and explanations, and offer tips on using financial statement information

$4 million of charges reported in the "culture and recreation" row represents admission fees to museums and parks, concession proceeds from food and souvenir stands, permit fees for using softball and soccer fields, and other similar revenues. For "public safety," program revenues might include permit fees for parades, and traffic and parking fines.

- Program revenues include the grants and contributions a government receives that are restricted for use to a particular purpose. The statement divides these grants into two categories:
  - OPERATING—to finance the annual operating activities of your government; and
  - CAPITAL—to fund the acquisition, construction, or rehabilitation of capital assets.

The vast majority of grants are INTERGOVERNMENTAL AID—funds provided by the state and federal governments. In the vocabulary of government finance, these are called CATEGORICAL GRANTS, aid that comes with strings attached—it must be used for its specified purpose or not at all. Well-known examples of categorical operating grants are income support and healthcare for the poor, public education, and mass transit. Capital grants are quite common, as well—for building wastewater treatment plants, highways and bridges, and schools, to name a few. Governments also sometimes receive grants and contributions from nongovernmental foundations and private organizations.

Net cost of services—the burden on the taxpayer

So, what is the point of separating program revenues from other revenues, and organizing the top of the statement of activities in this fashion? An important purpose of the statement is to tell you the degree to which your government's various public services are financed with revenues, principally taxes, raised generally from local taxpayers. The remaining four columns in the top part of the statement display this information—NET (EXPENSE) REVENUE. These dollar amounts are derived by subtracting program revenues from each functional expense category.

It should not come as a surprise that the expenses of the governmental activities surpass their program revenues, creating negative numbers—net expenses or net costs to the general public. (Parentheses indicate a number is below zero.) After all, services like public safety and education are dependent upon tax dollars and are supplied by governments because the private sector does not provide such services in quantities sufficient to meet public demand. The "negative" numbers listed next to the governmental activities should not be construed as something bad; they are merely indicative of whether a particular function of government relies on general revenues for financing or is a net contributor of resources to the general government.

The net cost to the public of Local City's public safety activities was ($36,335,774). Local City's water services were a net contributor to general revenues in the amount of $1,723,526.

NET EXPENSE is the portion of service costs not covered by related program revenues and which therefore requires financing from general revenues

NET REVENUE is the portion of program revenues in excess of related service costs

By the numbers . . . dedicated taxes

Accounting standards require that all taxes be reported as general revenues. What about dedicated taxes, though, which by law can be used only for a specific purpose? A common example is a motor fuel tax that is used to fund road repairs. Dedicated taxes *do not* meet the definition of program revenues: They are not program-specific grants and contributions; nor are they charges for services. Therefore, they are considered part of the general revenues governments use to finance the portion of program costs not covered by program revenues.

Upon further review . . . mass transit

Mass transit activities, such as bus and subway service, do not fit the otherwise tidy theory that governmental activities place a burden on taxpayers while BTAs are net contributors to general revenue. Mass transit is often operated and accounted for as a BTA because passengers are charged a fare. However, that fare rarely comes close to covering the cost of ridership.

Rather, mass transit tends to be subsidized by tax revenues. If mass transit appeared in Figure 5, it would show a sizable net expense, like Local City's parking facilities.

User Guide Features

Highlighted references help readers connect concepts in the text with the numbers in the financial statements

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Accounting standards require that all taxes be reported as general revenues. What about dedicated taxes, though, which by law can be used only for a specific purpose? A common example is a motor fuel tax that is used to fund road repairs. Dedicated taxes *do not* meet the definition of program revenues: They are not program-specific grants and contributions; nor are they charges for services. Therefore, they are considered part of the general revenues governments use to finance the portion of program costs not covered by program revenues.

Upon further review . . . mass transit

Mass transit activities, such as bus and subway service, do not fit the otherwise tidy theory that governmental activities place a burden on taxpayers while BTAs are net contributors to general revenue. Mass transit is often operated and accounted for as a BTA because passengers are charged a fare. However, that fare rarely comes close to covering the cost of ridership.

Rather, mass transit tends to be subsidized by tax revenues. If mass transit appeared in Figure 5, it would show a sizable net expense, like Local City's parking facilities.

User Guide Features

When the text touches upon key, underlying accounting concepts, readers are referred to the relevant part of an appendix providing an overview of the basics of governmental accounting and financial reporting

INFORMATION ABOUT THE WHOLE GOVERNMENT

The typical local government's set of BASIC FINANCIAL STATEMENTS begins with the STATEMENT OF NET ASSETS and the STATEMENT OF ACTIVITIES. They are referred to collectively as the GOVERNMENT-WIDE FINANCIAL STATEMENTS because they encompass the whole government. (See Appendix E, p. E-6)

WHAT'S AHEAD?

- Find out what your government owns and how much it owes.
- Assess your government's present financial status and future outlook.

STATEMENT OF NET ASSETS

Penelope Wise is finally taking her dream vacation to Europe, but her fear of flying gets the better of her. She arranges a meeting with her accountant—Bill Meelater, CPA, of the firm Readum & Weape LLP—to "get her affairs in order." Bill suggests that Penny start by making two lists: The first will contain all of her property and possessions; the other will detail all of her debts. "This exercise will give you a general sense of where you stand financially," Bill says.

The statement of net assets essentially tells you what the government owns and owes at a given point in time, usually the last day of the FISCAL YEAR. All private- and public-sector organizations produce a similar statement, sometimes called a balance sheet or statement of financial position.

The statement of net assets compares the ASSETS the government owns with the LIABILITIES it owes as of the date on the statement. The NET ASSETS are what remain after the liabilities have been paid off or are otherwise satisfied. The statement is designed to display the basic accounting relationship: *assets minus liabilities equal net assets*. (See p. E-1) Therefore, the statement lists assets first, then liabilities, and finally net assets. (See Figure 1, an illustrative statement of net assets for a fictional government, Local City.)

As of December 31, 2000, Local City had assets totaling $389,545,344, liabilities of $180,417,276, and net assets of $209,128,068.

Short-run and long-run information

The sample statement in Figure 1 is prepared in an optional CLASSIFIED format, which categorizes the assets and liabilities as CURRENT and NONCURRENT and provides separate subtotals for each. This format is helpful for certain kinds of analyses (some of which will be discussed later). For example, if you want to assess your government's short-term financial needs, you may want to focus only on its most immediately available resources. The presence of ready subtotals makes it easier to identify the information you are interested in (and to calculate FINANCIAL RATIOS such as those in Appendix C).

the STATEMENT OF NET ASSETS reports what a government owns or controls (assets), what it owes (liabilities), and what is left over after assets have been used to satisfy liabilities (net assets)

the STATEMENT OF ACTIVITIES reports a government's expenses and revenues, as well as other changes in its net assets during the year

the GOVERNMENT-WIDE FINANCIAL STATEMENTS cover all of a government's activities (except fiduciary activities) and include the statement of net assets and the statement of activities

CURRENT ASSETS are expected to be converted to cash within a year and face no restrictions that would prevent the government from doing so; NONCURRENT ASSETS will be liquidated beyond the current year, if at all

CURRENT LIABILITIES are due within a year and require the use of cash or other current assets; NONCURRENT LIABILITIES come due beyond the current year

User Guide Features

Useful appendices:

- Glossary of terms
- Introduction to financial statement analysis
- Background information about GASB, the user community, and Statement 34

GLOSSARY OF TERMS

AAL: see ACTUARIAL ACCRUED LIABILITY

ACCOUNTABILITY: a responsibility to justify your actions to another party

ACCOUNT GROUPS: accounting entities used by governments (prior to GASB STATEMENT 34) to list GENERAL FIXED ASSETS and GENERAL LONG-TERM DEBTS generally financed or repaid through the governmental funds (BTN p. E-11)

ACCOUNTING: see FINANCIAL ACCOUNTING

ACCOUNTING EQUATION: the equation stating the relationship among the elements recorded by FINANCIAL ACCOUNTING. For the GOVERNMENTAL FUNDS it is *assets = liabilities + fund balance;* the equation is rearranged for other funds and the GOVERNMENT-WIDE FINANCIAL STATEMENTS: *assets – liabilities = net assets*

ACCOUNTS PAYABLE: amounts a government owes to external persons or groups (BTN p. 14)

ACCOUNTS RECEIVABLE: amounts a government is due to receive in return for goods or services it has provided

ACCRUAL BASIS OF ACCOUNTING: all flows of resources (and thus all CHANGES IN NET ASSETS) during the year are recorded regardless of whether they involved cash flowing in or out of the government (App. E)

ACCUMULATED DEPRECIATION: the sum of all annual DEPRECIATION EXPENSES to date for a CAPITAL ASSET; it is subtracted from HISTORICAL COST on a STATEMENT OF NET ASSETS (Part 2; App. E)

ACTUARIAL ACCRUED LIABILITY (AAL): the estimated value of pension benefits attributed to service already completed by current and future retirees (Part 5; Fig. 17)

ACTUARIAL VALUE OF ASSETS: the value assigned in an actuarial valuation to cash, investments, and other property held by a pension fund for the future payment of benefits (Part 5; Fig. 17)

ACTUARIALLY FUNDED PENSION PLAN: an approach to pension funding that involves a government's contributing an amount each year that is sufficient, based on actuarial estimates, to provide retirement benefits attributable to prior service to present employees and retirees; see also PAY-AS-YOU-GO (Part 5)

ADDITIONS: increases in the NET ASSETS of a FIDUCIARY FUND, including contributions by employers and employees and investment earnings (Part 3; Fig. 13)

AGENCY FUNDS: a type of FIDUCIARY FUND that contains resources held on a temporary, purely custodial basis by a government on behalf of others (Part 3)

AGENT MULTIPLE-EMPLOYER PENSION PLAN: single-employer plans aggregated into one plan, with shared administrative and investment functions; separate accounts are maintained for each employer to ensure that the employer's contributions provide benefits only for its employees; see also COST-SHARING (Part 5)

APPROPRIATIONS: legal authorizations to make EXPENDITURES, or to enter into obligations to make expenditures, for specific purposes

ASSETS: resources owned or controlled by a government, as a result of a past TRANSACTION or other event, that have a recognizable monetary value (Part 2; App. E)

AUDITOR'S REPORT: a letter accompanying the financial statements that presents a CPA'S or other auditor's opinion concerning whether the statements are presented fairly in conformity with GAAP (KIM p. 67; Fig. B-1)

KEY TO TEXT REFERENCES:

BTN By the Numbers
KIM Keep in Mind
TOT Tools of the Trade
UFR Upon Further Review

Note to the reader: This glossary contains definitions of certain terms as they are used in this document. These terms may, however, have different meanings in other contexts. Parenthetical citations refer to where the reader can find a discussion of individual terms.

Figure 3

Illustrative Long-term Debt Note Disclosure

Note 3—Disclosure of Information about Long-term Liabilities

Long-term liability activity for the year ended December 31, 2002 was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance*	Amounts Due within One Year
GOVERNMENTAL ACTIVITIES					
Bonds and notes payable:					
General obligation debt	$32,670	$22,205	$(22,300)	$32,575	$2,729
Revenue bonds	14,485	15,840	(14,485)	15,840	1,040
Redevelopment agency bonds	14,965	18,000	(540)	32,425	1,300
Special assessment bonds	—	1,300	—	1,300	92
Equipment note	1,203	—	(954)	249	249
	63,323	57,345	(38,279)	82,389	
Less deferred amount on refundings	—	(3,409)	341	(3,068)	—
Total bonds [illegible]	[illegible]	[illegible]	(37,938)	[illegible]	5,410
Other liabilities:					
Compensated [illegible]			[illegible]	5,342	2,138
Claims and jud[illegible]			(2,964)	7,875	1,688
Total other li[illegible]			(5,803)	13,217	3,826
Governmental ac[illegible]			$(43,741)	$92,538	$9,236

*Payments on th[illegible] [illegible]ctivities are made by the debt service funds except for the ec[illegible] communications internal service fund. (See Notes Y and Z.) [illegible] governmental an[illegible] the casualty insu[illegible]

BUSINESS-TYP[illegible]		
Bonds and notes [illegible]		
Water and sewer debt	$56,975	$ 3,60[illegible]
Parking facilities debt	21,567	9,51[illegible]
	78,542	13,11[illegible]
Less deferred amount on refundings	(1,207)	(1,32[illegible]
Total bonds and notes payable	77,335	11,78[illegible]
Compensated absences	572	1,28[illegible]
Business-type activities, long-term liabilities	$77,907	$13,07[illegible]

Note: These amounts have been rounded off to thousands of dollars.

Additions are predominantly the issuance of new bonds and notes and new claims judgments and additional accruals of compensated absences.

Reductions are predominantly repayments of debt and payments against outstanding claims and judgments and compensation of departing employees.

The numbers in this column are referred to in the statement of net assets as the "current portion of long-term obligations." These amounts are due to be repaid during fiscal year 2003.

For instance, pending insurance claims and court awards.

Unused vacation and other leave time for which employees will be compensated when they retire or leave the government.

Annotation boxes highlight major features of statements and relate them to the text

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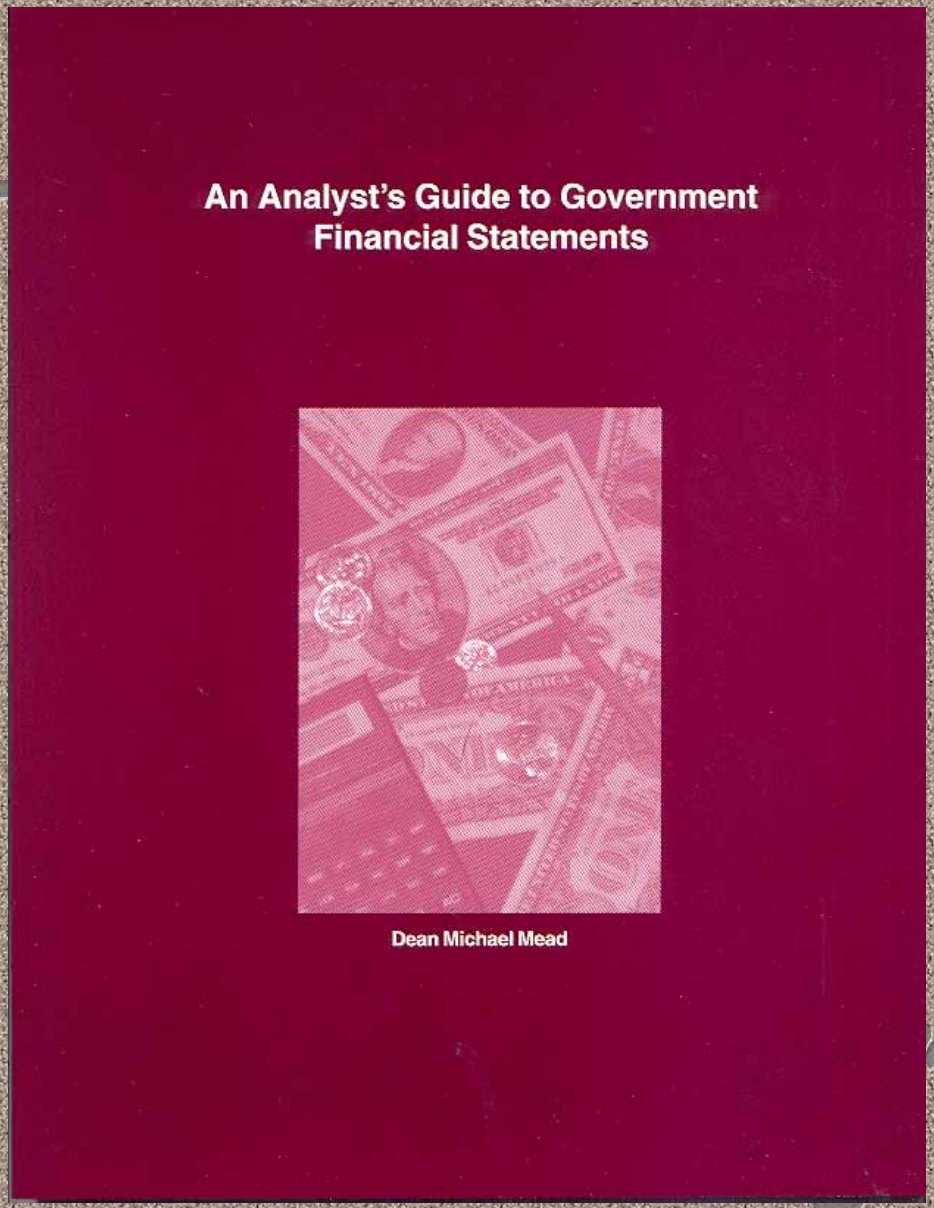

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- Common-size ratios
- Financial position & condition
- Liquidity and solvency
- Risk

FINANCIAL CONDITION ANALYSIS

In the literature that discusses the hows and wherefores of analyzing a government's financial health, two concepts are commonly bandied about—financial position and financial condition. Some care is required when using these terms because it is far less common to find much agreement regarding their definitions.

Some analysts use one phrase or the other, and some use them interchangeably. Still others differentiate between the concepts to varying degrees, ranging from vast to subtle differences.

The approach of this guide is to consider financial position as an integral and distinct part of financial condition. FINANCIAL POSITION is considered to be a government's fiscal standing at a given point in time—in particular, as of the date of the government's financial statements. FINANCIAL CONDITION looks forward from the financial statement date: a government's ability to provide services and finance obligations as they come due.

Financial condition is the more comprehensive barometer of a government's overall fiscal health. A government's present financial position is an important determinant of its ability to finance services in the future. To assess financial condition you need to consider serveral other factors as well—specifically, LIQUIDITY, SOLVENCY, and FISCAL CAPACITY. Together with financial position, these three issues and methods of analyzing them are explored in this section. Not surprisingly, we shall find that many relevant financial ratios are informative about both where a government stands now and where it is headed.

Financial Position

The simplest and most straightforward way to assess a government's present financial situation is to compare its total assets and liabilities. (Refer to the government-wide statement of net assets in Figure 1.) Does it own more than it owes, or vice versa? You do not even need a calculator, because the net assets figure is the difference between the two. This is the most basic definition of financial position—and the reason this kind of statement is sometimes called a statement of financial position.

To add some additional meaning to the net assets figure, you could compare it to the previous year's net assets. (This kind of information can be found in Table A-1 of the MD&A as well.) Did net assets increase? Then financial position improved. Decrease? Then financial position deteriorated. You could also divide net assets by total assets and compare the result with other governments. In either case, you can also utilize only unrestricted net assets if you wish to assess or compare the most broadly available resources.

In order to obtain a sense of the *magnitude* of the change in financial position, some analysts compare the aggregate net assets amount to the government's overall level of financial activity. It is calculated here for the Local Public School District, using information in the component unit combining statements (Figures 11 and 12):

net assets ÷ total expenses =
17,150,749 ÷ 31,186,498 = 0.54994, or 55.0 percent

FINANCIAL POSITION is a government's financial status as of the date of its financial statements

FINANCIAL CONDITION is a government's ability to meet its obligations as they come due and to finance the services its constituency requires

LIQUIDITY refers to a government's ability to cover its short-term need for resources to satisfy liabilities

SOLVENCY refers to a government's ability to finance its outstanding long-term debts

FISCAL CAPACITY relates to a government's ability to obtain resources, such as through increasing taxes or borrowing, to provide services to its constituency

By the numbers . . . economic condition

At the time this guide is being published, the GASB's technical agenda includes a project to study the reporting of the economic condition of state and local governments. Economic condition, as the GASB tentatively defines the term, is a somewhat more expansive concept than this guide's definition of financial condition. According to the tentative definitions currently employed by GASB staff:

- *Economic condition* is a composite of a government's financial health and its ability and willingness to meet its financial obligations and service commitments. Economic condition includes three components: financial position, fiscal capacity, and service capacity.
- *Financial position* is the status of a government's asset, liability, and net asset accounts, as displayed in its basic financial statements.
- *Fiscal capacity* is a government's ongoing ability and willingness to raise revenues, incur debt, and meet its financial obligations as they come due. (This term essentially adds the concept of "willingness" to this guide's definition of financial condition.)
- *Service capacity* is a government's ongoing physical ability and willingness to meet its commitments with respect to the kind, quantity, and quality of service delivery.

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Dean Mead—dmmead@gasb.org
Telephone—(203) 847-0700, x294
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