

## Fiscal Health Indicators: Annual Financial Data

File: AFR Data.xlsx

### Description:

The annual financial results of a local government provide key insights on the fiscal health of the local government. By reviewing items such as fund balances and trends in spending and revenues, interested parties can gain an understanding of how the government has been performing from a financial perspective and where concerns may exist in the future.

At regular intervals, local governments are required to submit financial results to the State of Indiana. Non-school political subdivisions will submit an Annual Financial Report to the State Board of Accounts after the conclusion of a year. Schools submit semi-annual financial results to the Indiana Department of Education. This data forms the basis for the indicators included in this section. Please note that Indiana local governments primarily report on a cash basis for accounting. This may impact the interpretation of fund balances and other financial data.

As each unit will have their own set of funds and methods for reporting activities within these funds, the Department has provided standardization for the purposes of Fiscal Health Indicators. To do so, the Department first assigned each fund to one of the following categories:

- General – Almost all local governments have a General Fund which serves as the main operating fund of the local government.
- Rainy Day – A local government may establish a Rainy Day Fund which acts as a savings account for the government. Indiana statutes provide for a local government to transfer money into the Rainy Day Fund and then expend that money for a variety of purposes. Both transfers into the Rainy Day Fund and expenditures from the Rainy Day Fund have certain statutory restrictions which must be followed. The funding of a Rainy Day Fund can demonstrate a local government's planning for future emergencies or needs.
- Debt Service – A local government has the ability to issue municipal bonds or enter into leases for the purposes of funding many capital projects. Debt service funds will be used for the repayment of such debt obligations as well as for any funding reserves which were required as part of the debt issuance process.
- Dedicated – This category of funds will largely include special revenue funds and capital projects funds. Special revenue funds are used to account for a specific revenue source and the expenditures associated with these revenues. Capital projects funds are dedicated to expenditures for capital outlays, such as the construction of facilities and purchase of capital assets.
- Enterprise – Some local governments have reported the presence of enterprises. Enterprises are business-like programs of the local government for which a fee is typically charged to the user of the good or the service. Some examples of enterprises include water or sewer utilities, public transportation, and trash services. The Department has assumed that local governments

have correctly reported the presence of enterprises on the Annual Financial Report. Therefore, if a local government indicated funds are associated with an enterprise, the Department has not modified this classification.

- Restricted – Restricted funds are those funds that are not available for use by the local government for daily operations. These funds may include funds through which a local government receives money and then distributes it to other entities, such as the county distributing property taxes collected on behalf of other local governments. Restricted funds will also include funds such as payroll funds or funds which serve as a trust for long-term investment by the local government.

The Department has rigorously attempted to correctly classify funds using these classifications. However, the Department notes that it does not have specific knowledge of how each fund is utilized locally and it is possible that funds have been incorrectly classified. Local governments are encouraged to contact the Department with any concerns on fund classifications so these concerns can be resolved prior to future versions of Fiscal Health Indicators. The Department will also continue to work with local governments, State Board of Accounts, and the Indiana Department of Education to further refine these classifications.

In addition to funds, the annual financial data also includes information on revenues and expenditures of the local governments. The Department has utilized this information for a number of fiscal health indicators. For both revenues and expenditures, the Department has excluded certain revenues or expenditures from consideration. Due to the nature of these revenues or expenditures, including them would result in double-counting these monies among funds. Revenues excluded from consideration generally include transfers among funds, loans between funds, the proceeds of temporary borrowings, and the sale of investments. Expenditures excluded from consideration generally include transfers out of funds, loans to other funds, distributions to other entities, and purchase of investments. As with the fund classification, the Department has made its best attempt to exclude revenues and expenditures appropriately. The Department notes that it has not removed individual revenue or expenditure line data within included receipt and disbursement categories. As a result, there may be anomalies in the data based on the way a local government reported a particular revenue or expenditure. Local governments are encouraged to discuss concerns with the Department so further refinement can be addressed.

#### Fiscal Health Indicator:

##### Ending fund balance

This indicator provides the ending fund balance for each reported fund of a local government. It should be noted that these balances are representative of a local government's fund at a particular point in time, in this case the close of the calendar year (December 31). It is possible for fund balances to fluctuate significantly throughout the year depending on the receipt of revenues or the flow of expenditures within the fund.

Each fund will have its own applicable rules and accounting methodology. Negative fund balances are generally concerning, as they may represent funds in which the local government does not have sufficient funding for the services to be provided from that fund. However, certain funds have accounting mechanisms which allow the fund balance to be negative, so a negative fund balance should be reviewed carefully in context with the specific fund.

Source: Annual Financial Report data as of June 13, 2015, accessed through <http://gateway.ifionline.org>. School Form 9 data obtained from the Indiana Department of Education on June 17, 2015.

Fiscal Health Indicator:

General Fund Balance as Percent of General Fund Expenditures

Comparing the General Fund ending cash balance to the General Fund expenditures provides an indication of the local government's ability to fund future operations. Fund balances that are a low percentage of the General Fund expenditures pose a potential risk to the local government as the government would not have sufficient cash reserves to rely on if future revenues were reduced.

Source: Annual Financial Report data as of June 13, 2015, accessed through <http://gateway.ifionline.org>. School Form 9 data obtained from the Indiana Department of Education on June 17, 2015.

Fiscal Health Indicator:

General Fund Balance as Percent of General Fund Revenues

General Fund balance as a percent of the General Fund revenues provides an indication of a local government's efforts to create a cash balance in the General Fund. Local governments for which the General Fund cash balance is a small percentage of the total revenues received in a given year may be using the majority of the annual revenue to fund annual operations, rather than building a cash balance for future uses. Local governments for which the General Fund balance is a high percentage of the annual revenue or for which the fund balance exceeds annual revenues may be accumulating monies for future uses or in excess of actual needs.

Source: Annual Financial Report data as of June 13, 2015, accessed through <http://gateway.ifionline.org>. School Form 9 data obtained from the Indiana Department of Education on June 17, 2015.

Fiscal Health Indicator:

General Fund Revenues per Capita

Revenue per capita provides a way to compare revenues across local governments while factoring out differences in total revenue driven by the size of a local government. Changes in revenue per capita over multiple years also give an indication of whether revenues are growing or shrinking over time. This indicator includes only a local government's General Fund in the calculation and excludes certain revenue classifications to minimize the possibility of overstating a local government's revenues.

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Revenue per capita provides a way to compare revenues across local governments while factoring out differences in total revenue driven by the size of a local government. Changes in revenue per capita over multiple years also give an indication of whether revenues are growing or shrinking over time. This indicator includes the revenues from the local government's General, Rainy Day, Debt Service, and Dedicated funds, while excluding certain revenue classifications in order to minimize the possibility of overstating a local government's revenues. Enterprise funds and Restricted funds have been excluded from this calculation.

Source: Annual Financial Report data as of June 13, 2015, accessed through <http://gateway.ifionline.org>. School Form 9 data obtained from the Indiana Department of Education on June 17, 2015.

### Fiscal Health Indicator:

#### General Fund Revenues by Type

When reporting revenues, local governments categorize such revenues by type. These types include:

- Taxes and Intergovernmental
- Licenses and Permits
- Charges for Services
- Fines, Forfeitures, and Fees
- Utility Penalties
- Other Receipts

By identifying the percentage of a local government's total General Fund revenues which are derived from a given type, it is possible to assess how the local government is funding its operations. Depending on the type of revenue, this could serve as an indication of the risk of revenue changes for the local government. For example, a local government may have the ability to control certain aspects of revenue in the Charges for Services revenue type by changing the amounts charged. However, the revenue from Licenses and Permits or Fines, Forfeitures and Fees may be more driven by economic conditions than my actions of the local government. Changes in the makeup of the revenue sources for a local government over time can also demonstrate how statutory changes or economic conditions may impact a local government's revenue stream. This indicator includes only a local government's General Fund in the calculation and excludes certain expenditures classifications to minimize the possibility of overstating a local government's expenditures.

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Fiscal Health Indicator:

General Fund Expenditures per Capita

Expenditures per capita provides a way to compare expenditures across local governments while factoring out differences in total expenditures driven by the size of a local government. This indicator does not account for differences in services provided which can impact the expenditures of a local government. Changes in expenditures per capita over multiple years also give an indication of whether expenditures are growing or shrinking over time. This indicator includes only a local government's General Fund in the calculation and excludes certain expenditures classifications to minimize the possibility of overstating a local government's expenditures.

Please note that the figures reported in this indicator may differ from those in the Department's annual report on Expenditures Per Capita and the Expenditures Per Capita Gateway report. These indicators group funds into fund types and exclude expenditures, including enterprise funds and restricted funds, which are not always filtered out of the other reports.

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#### Fiscal Health Indicator:

##### General Fund Expenditures by Classification

When reporting expenditures, local governments categorize expenditures by major classification. These classifications include:

- Personal Services
- Supplies
- Other Services and Charges
- Township Assistance
  - Please note that this classification is typically restricted to Township Assistance Funds and would not be used in the General Fund.
- Debt Service
- Capital Outlays
- Operations
- Other Disbursements

Expenditures by classification serves as a summary of a local government's expenditures and can provide insight into a government's priorities and future. For example, governments with a low percentage of Capital Outlays expenditures may be utilizing available funding for today's operations while neglecting to maintain facilities for future use. Governments with a high percentage of spending going towards personal services may be at risk of layoffs and reduced services in future years if revenues were to decline. Changes in the expenditures over time can be indicative of a local government's response to the needs or requests of its residents. Such changes may also demonstrate a local government's response to economic conditions impacting its revenues. This indicator includes only a local government's General Fund in the calculation and excludes certain expenditures classifications to minimize the possibility of overstating a local government's expenditures.

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### Fiscal Health Indicator:

#### General Fund Deficit or Surplus as Percent of General Fund Revenue

The General Fund deficit or surplus is calculated by subtracting the General Fund expenditures from the General Fund revenues for the identified year. A negative result indicates that the local government's spending exceeded its revenues for the year. By then dividing this result by the General Fund revenues, it is possible to compare the deficit or surplus across local governments, regardless of the size of the government. When a local government has a surplus (revenues exceeded expenditures), the result of this calculation will show the percentage of General Fund revenues which exceeded the expenditures in the General Fund. For local governments with a deficit (expenditures exceeded revenues), the result indicates the percentage of additional revenue that would have been needed in order for the local government's revenues to fully fund its annual expenditures.

This indicator includes only a local government's General Fund in the calculation and excludes certain revenues and expenditures classifications to minimize the possibility of overstating a local government's revenue or expenditures.

Source: Annual Financial Report data as of June 13, 2015, accessed through <http://gateway.ifionline.org>. School Form 9 data obtained from the Indiana Department of Education on June 17, 2015.

**Fiscal Health Indicator:**

**Deficit or Surplus as Percent of Revenue**

The deficit or surplus is calculated by subtracting total expenditures from the total revenues for the identified year. A negative result indicates that the local government's spending exceeded its revenues for the year. By then dividing this result by the total revenues, it is possible to compare the deficit or surplus across local governments, regardless of the size of the government. When a local government has a surplus (revenues exceeded expenditures), the result of this calculation will show the percentage of revenues which exceeded the expenditures in the included funds. For local governments with a deficit (expenditures exceeded revenues), the result indicates the percentage of additional revenue that would have been needed in order for the local government's revenues to fully fund its annual expenditures.

This indicator includes the expenditures from the local government's General, Rainy Day, Debt Service, and Dedicated funds, while excluding certain expenditure classifications in order to minimize the possibility of overstating a local government's expenditures. Enterprise funds and Restricted funds have been excluded from this calculation.

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