

# State of Ohio – Financial Health Indicators

#1

## Unrestricted Net Assets/Position of Governmental Type Activities (GTA)

- There are three (3) major components to net assets/ position (equity) - Net investment in capital assets, restricted net assets/position, and unrestricted net assets/position.
- Unrestricted net assets/position represents the portion of net position that has no related liabilities or restriction as to use.
- Negative unrestricted net assets/position occurs primarily if liabilities exceed assets.

**What it means:** This indicator identifies when an entity has declining or negative unrestricted net assets/position.

**Why it is important:** This indicator identifies if net assets/position is available for unrestricted purposes. Although unrestricted net assets/position may not be in liquid form, it is important to have net assets/position available and unrestricted as to use.

If an entity's unrestricted net assets/position is declining or is negative, it leaves little or no room for unexpected expenses; and therefore, is a sign of fiscal stress.

[Red] Critical Outlook – Zero or negative amounts

[Yellow] Cautionary Outlook – Decline between the current and prior year by more than 1%.

#2

## Unassigned Fund Balance of the General Fund

- A component of equity
- There are five components of fund equity – non-spendable, restricted, committed, assigned, and unassigned. Unassigned fund balance is the portion of fund balance that has no related liabilities or has not otherwise been obligated.

**What it means:** This indicator identifies when an entity has declining or negative unassigned fund balance. Why it is

**important:** This indicator identifies if fund balance is available for unrestricted purposes. Although unassigned fund balance may not be in liquid form, it is important to have fund balance available without restrictions as to use. If an entity's unassigned fund balance is declining or is negative, it leaves little or no room for unexpected expenses; and therefore, is a sign of fiscal stress.

[Red] Critical Outlook – Zero or negative amounts

[Yellow] Cautionary Outlook – Decline between the current and prior year by more than 1%.

#9

## General Revenues of GTA / Net Expenses of GTA **What it means:**

The ratio of this indicator reflects coverage of net expenses by general revenues.

This indicator determines if, on a government-wide basis, expenses are exceeding revenues. For example, local taxes, unrestricted revenues (e.g. investment earnings) and unrestricted grants should be sufficient to meet expenses not covered by program revenues. Net expense is total expense less program revenues. Program revenues include charges for services (e.g. fees and fines), operating grants and capital grants.

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**Why it is important:** This indicator is important to be aware if a shortage in revenues to cover expenses exists. A declining trend would indicate fiscal stress.

[Red] Critical Outlook – Ratio less than 100%

[Yellow] Cautionary Outlook – Declining trend of at least three years.

#11

## Condition of Capital Assets\*

**What it means:** This indicator is accumulated depreciation as a percentage of depreciable capital assets. This indicator will identify situations in which repair or replacement of the local government's assets will be necessary.

A high percentage indicates assets replacement is imminent and the entity may be delaying replacement of assets or significant repairs for cash flow purposes.

**Why it is important:** When entities delay improving or replacing assets in order to maintain cash flows for other purposes, improvements and replacements become absolutely necessary and may contribute to financial hardship on an already strained budget.

[Red] Critical Outlook – Ratio greater than 70%

[Yellow] Cautionary Outlook – Ratio between 50% - 70%

\*This FHI is only applicable to local governments reporting on a GAAP basis of accounting

#13, #14, #15

## Average Daily Expenses or Expenditures Ratio (Indicators 13, 14 & 15):

13. Unrestricted Net Assets/Position of GTA/Average Daily Expenses of GTA

14. Unassigned Fund Balance of the General Fund/Average Daily Expenditures of the General Fund

15. Cash & Investments of the General Fund/ Average Daily Expenditures of the General Fund

**What they mean:** Indicators 13, 14 and 15 identify the number of days the local government's unrestricted net assets/position, unassigned fund balance, and cash and investments will sustain the entity. The indicators are based on the daily average expenses/expenditures.

**Why it is important:** These indicators are important because they identify the number days the entity may operate using their unrestricted net assets/position, unassigned fund balance, and cash and investments. The fewer days the entity can operate, the more financial stress they are under. It provides an early indication of an entity's need to adjust their financial/expenditure planning.

[Red] Critical Outlook – Zero days or below

[Yellow] Cautionary Outlook – Less than 30 days

#16

## Total Liabilities-to-Net Assets/ Position\*

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**What it means:** This indicator is the ratio of total liabilities of GTA divided by total net assets/position of GTA and indicates the percentage of every dollar of resources, available for providing public services, that is owed by the entity.

**Why it is important:** This indicator identifies entities that are over-extended in terms of the percentage of every dollar which is owed to others.

For Cities:

[Red] Critical Outlook – Negative ratio (representing negative net assets) OR ratio greater than 70%

[Yellow] Cautionary Outlook – Ratio between 50% - 70%

For Counties:

[Red] Critical Outlook – Negative ratio (representing negative net assets) OR ratio greater than 60%

[Yellow] Cautionary Outlook – Ratio between 40% - 60%

\* This FHI is only applicable to local governments reporting on a GAAP basis of accounting

#17

## Budgetary Non-Compliance and/or Unreconciled/Unauditable Financial Records

What it means: This indicator identifies if an entity's recent audit reports include budgetary non-compliance and/or unreconciled/unauditable financial records. The Indicator 17 determination is based on the current and prior two (2) audited years.

**Why it is important:** This indicator will reflect if an entity is not complying with Ohio budgetary law and/or proper accounting methods. Maintaining accurate, reconciled accounting records and adherence to Ohio budgetary law is a significant factor in maintaining fiscal stability.

[Red] Critical Outlook – Direct and material audit finding(s) described above for the current and prior two audit years.

[Yellow] Cautionary Outlook – Direct and material audit finding(s) described above for the current audited year.