National State Auditors Association
2016 Excellence in Accountability Awards

ENTRY FORM

Name of project: Financial Intelligence Tool

State submitting entry: Washington

Office: Washington State Auditor’s Office

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Please indicate the award type you are submitting for:

- Performance Audit
- Forensic Report
- Special Project X

Each entry must be submitted in unprotected PDF format only to Sherri Rowland at srowland@nasact.org, and should include the following:

- Completed entry form.
- A write-up (maximum of 2 pages) identifying the report/project performed and the result.
- A copy of the formal report or project.
- Additional information such as copies of newspaper articles, legislation or policy changes that resulted from the report or project. Additional materials too large to email (e.g., video of a news item) should be submitted on a CD/DVD/thumb drive. Six (6) copies of the CD/DVD/thumb drive must be received by Sherri Rowland at NSAA prior to the submission deadline. CDs/DVDs/thumb drives should be mailed to Sherri at 449 Lewis Hargett Circle, Suite, 290, Lexington, KY 40503.

Please note:

- It is solely the submitter’s responsibility to ensure that all materials are received by Sherri Rowland prior to the submission deadline.
- To be considered for an award, all documents must be submitted electronically in PDF format. (See exception above for materials too large to email.) Note: Links to documents on a website will not be accepted.
- PDF documents must not be protected in any manner that would prevent printing or require a password to access the documents. Protected documents will be disqualified.

The entry must be e-mailed to Sherri Rowland at srowland@nasact.org and received no later than 5:00 p.m. EST on Friday, February 26, 2016. Submissions received after the deadline will not be accepted. You will receive a confirmation e-mail confirming your entry was received. If you have not received confirmation within two business days, please contact Sherri directly at (859) 276-1147.
2016 NSAA Awards Program: Outstanding Special Project Award

The Financial Intelligence Tool, known as FIT, makes complex local government financial information more understandable

Understanding a government’s financial health can be complex. A variety of financial ratios and indicators can help officials monitor their government’s financial status, but no single indicator, grade or score gives a complete representation of the government’s situation. That is why the Local Government Performance Center at the Washington State Auditor’s Office has developed a Financial Intelligence Tool (FIT) to help officials regularly assess and monitor their government’s financial health.

What is FIT, and how does it work?

FIT is an online, interactive program that displays historical financial information in a trend format, with graphs and charts that allow for easy analysis. It is designed to help local government officials who need a sound understanding of their organization’s finances, but who may not have the experience or confidence to analyze complex financial statements themselves. To begin exploring FIT, log in using the instructions in the sidebar and watch the Welcome Video (Exhibit 1).

FIT combines financial information that governments report annually to the State Auditor’s Office with demographic data from other sources to display five financial ratios, along with guidelines provided solely for purposes of financial analysis. Tutorials embedded in the program make potentially difficult financial concepts easier to understand for users of any experience level (see the overview video in Exhibit 2).

If a particular ratio shows something unexpected, the program allows users to dig deeper and ask more questions to determine whether the result is a one-time variance or a long-term issue that may require action. Because FIT is a product of the State Auditor’s Office, users can trust that guidelines are derived from accounting best practices.

FIT draws on data that local governments are already required to report to the State Auditor’s Office, eliminating duplicative data entry. Local governments can view and analyze their financial health through FIT as soon as they submit their reports through the Office’s online filing system: no need to wait for an audit.

Materials accompanying this application
Exhibit 1: FIT Welcome Video
Exhibit 2: FIT Overview Video
Exhibit 3: FIT Handbook
Exhibit 4: FIT Glossary
Exhibit 5: FIT Announcement
Exhibit 6: FIT Testimonial Video

How to log in to FIT
2. Sign in using:
   Email: awards@nasact.org
   Password: 2016Awards
3. You should now be on the FIT page within our system. If you are not, the FIT page can be accessed by clicking on the FIT logo in the second navigation bar at the top of the screen.
4. Review the information on the FIT page and click the “Launch FIT” button in the bottom right of the page.

Note: This login is for NSAA Special Project Award judges.
FIT meets informational and educational needs of government users

The Performance Center turned to a variety of partners as it explored ways to help local governments address financial health problems: local elected officials, employees, various government associations, state agencies and internal audit teams. Their input helped shape the tool’s early design specifications.

In addition to displaying trends in the local government’s financial data, FIT has other features that make it very helpful. A FIT user can:

- Insert budget information to analyze the effect budget decisions may have on the organization
- Find errors made in data submission so that it can be corrected before a scheduled audit
- Annotate fields to explain an irregular or unusual situation
- Review the data by fund or a selected group of funds
- Explore the details that make up the indicators and view them in a chart format
- Compare their government’s financial information to a peer-group benchmark
- Access educational tutorials to assist in using FIT and interpreting financial information
- Consult a handbook and glossary to clarify selected financial ratios and terms (see Exhibits 3 and 4)
- Print reports and charts to use for further discussion in meetings

These and other features make FIT more than a data analysis tool: government officials find it a valuable educational tool as well.

The results so far

In 2015, the Performance Center made FIT available to governments that report financial information using the cash basis of accounting, excluding only a few types of governments. (View the announcement in Exhibit 5.) Early FIT users indicate that it will be useful for confirming their own financial analyses, telling their governments’ financial stories in ways residents can understand, and identifying problems with their reported data.

We have heard many inspiring stories from individual FIT users who said they used it to facilitate communication between finance staff and elected officials, or as a tool in the budgeting process. The FIT Testimonial video shares a few FIT users’ stories (see Exhibit 6).

The future of FIT

As a result of using FIT, local government users will be better able to understand and monitor their organizations’ financial health, maintain effective oversight, and maximize the services they provide to citizens. Of Washington’s 2,000-plus local governments, about 1,400 can currently use FIT. Because of limitations with the way local governments currently file their financial data, FIT is not yet available to all local governments in Washington.

However, we are continuing to improve FIT. Later this year, we will launch a new version of the application designed for governments that report under Generally Accepted Accounting Principles. We expect to make FIT available to other local governments that cannot currently access it.

We also intend to add new sources of data to FIT, such as assessed property values and sales tax revenues. Users will be able to compare these new sources with currently available FIT data to reveal new insights about the financial health of their organizations and communities.

In the future, we will make FIT available to the public, ultimately helping local government officials increase effectiveness, transparency and accountability to citizens.
New: Local Government Financial Intelligence Tool

Local governments are the cornerstones of Washington communities. Acting on authority granted by the people they serve, local governments reflect the values of their communities while playing an ever-growing role in delivering essential public services.

Local government operations are complex. Officials must comply with myriad state and federal regulations, balance often constrained funds and resources while still addressing community priorities. To successfully manage this complexity, leaders need to understand local governments’ financial position. This is why the State Auditor’s Office created the Local Government Financial Intelligence Tool.

What FIT is:
The Financial Intelligence Tool, or FIT:
- Provides standard, transparent, financial reports based on current and historical data
- Offers understandable, and easily accessible financial analyses
- Guides financial decision makers of any experience level

What FIT is NOT:
FIT is not a scorecard and it’s not an audit. The guidelines included in FIT are not audit standards, but they are a way to raise awareness about potential financial pressures. The information is a starting point for deeper analysis of financial health.

Who should use FIT?
Local government elected officials, management and staff should use FIT to:
- Better understand their organizations’ financial health and confirm their own financial analyses
- Tell their governments’ financial story in a way residents can understand
- Identify problems with data reported annually to the State Auditor’s Office as soon as it is submitted without waiting for an audit

How does FIT work?
Governments that report financial information using the cash basis of accounting will have access to the tool through their Online Services account on our website. FIT combines financial information reported annually to the State Auditor’s Office with other data sources to create a variety of analysis features. It is not available to ports, public utility districts, transits and housing authorities. In the future, FIT will be available to these organizations and those that report under Generally Accepted Accounting Principles (GAAP).

How does it work?
FIT is available through your government’s account online at the State Auditor’s Office website.
1. Begin by logging in to your government’s account at https://portal.sao.wa.gov/saoportal/Login.aspx
2. Navigate to the FIT start page by clicking on the “FIT” tab, and watch the Welcome video.
3. Click the Launch FIT button to begin.

Once launched, the FIT online tutorial library will help you use the tool; you can also browse the FIT Handbook (a PDF document).

What if I don’t have an account?
If you do not already have an account that gives you access to your government’s reports, follow the instructions at the Online Services log-in webpage to create a new account.

The system will automatically send a message to your government’s audit liaison, asking him or her to approve access to your government’s reports.

For other questions, please see our Financial Intelligence Tool Handbook, email us at performance@sao.wa.gov, or call us at 360-725-5552.
In 2013, the Local Government Performance Center’s Leadership Group asked the Center to make financial health a priority. This leadership group asked the Center to provide guidance to local governments to assist them in regularly reviewing their financial data without waiting for an audit to alert them to potential problems. It is important for officials to have an awareness and understanding of their local government’s financial health, and be accountable to the public for solving and preventing financial distress.

To help local governments with this task, we developed an online application – known as FIT, for Financial Intelligence Tool – that is dependable, transparent, and easy to use. The current version is for governments that report using the cash basis of accounting and is based on an Excel spreadsheet used by auditors; later versions will run entirely online.

**FIT will help identify problems sooner and more easily**

We want to make it easier for local government officials to regularly assess and monitor their own financial health, using financial information they already report annually to the State Auditor’s Office. As this information is reported and audited, it creates a reliable and accurate historical financial database that can be used to analyze changes over time.

This first version of the financial intelligence tool will:

- Give local governments a new tool to respond to the financial pressure they face
- Use current and historical financial data already reported to the State Auditor’s Office annually
- Automatically calculate well-established financial ratios used by auditors
- Display clear and easy-to-understand graphs, charts and summary analysis
- Allow governments to monitor and identify some potential threats to financial health up to three years before an audit

This handbook will introduce you to FIT, the data it uses, and how it can help your local government make sound financial decisions.
What is FIT?
FIT is a reliable and easy-to-use look at important financial ratios. FIT is designed as a diagnostic tool, not a scorecard. Use it to identify potential financial concerns and to have conversations about how to stay financially healthy.

Who should use FIT?
FIT will initially only be available for local governments that report their financial transactions using the cash basis of accounting. Note: We are currently working on developing a similar tool that will be available in the future to governments that report in accordance with generally accepted accounting principles (GAAP). The tool is designed to be useful for:

- Elected and appointed officials who want to improve their understanding of their organization’s financial health
- Managers and staff responsible for helping to guide fiscal planning and budget development for local governments and special purpose districts.
- Other local government leaders who need to manage fiscal challenges of government

What does FIT actually calculate?
FIT calculates five key ratios that help users understand governmental financial health:

1. **Cash balance sufficiency.** How many days would the balance in the general fund be able to cover operating expenditures?
2. **Operating margin.** Is the difference between the government’s revenues and its operating expenditures positive or negative?
3. **Change in cash position.** Is the current year’s ending cash balance better or worse than the previous year?
4. **Debt load.** Are governmental fund debt service payments higher or lower than 12 percent of revenues?
5. **Enterprise self-sufficiency.** Do charges for services and other revenues completely cover enterprise expenses?

These five ratios are presented in a Snapshot table that highlights values that do not meet the FIT guideline. It also shows whether financial data has been adjusted by the FIT user (see the example in Figure 1).

Figure 1 – An example of the FIT Snapshot table

<table>
<thead>
<tr>
<th>Ratio (Click for Details)</th>
<th>What does it measure?</th>
<th>What does it reveal?</th>
<th>FIT Guideline</th>
<th>2013 Value</th>
<th>Data Adjusted by User?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Balance Sufficiency</td>
<td>Days of operating expenditures</td>
<td>What is the government’s ability to deal with emergencies and unanticipated needs?</td>
<td>at least 60</td>
<td>101.9</td>
<td>YES</td>
</tr>
<tr>
<td>Operating Margin</td>
<td>Net income as percent of revenues</td>
<td>Are governmental activities sustainable?</td>
<td>greater than 0%</td>
<td>20.5%</td>
<td>NO</td>
</tr>
<tr>
<td>Change in Cash Position</td>
<td>Percent change in cash position</td>
<td>Did the cash position of governmental funds improve or decline?</td>
<td>greater than 0%</td>
<td>2.1%</td>
<td>NO</td>
</tr>
<tr>
<td>Debt Load</td>
<td>Debt as a percent of revenues</td>
<td>How much governmental fund revenue goes toward debt payments?</td>
<td>less than 12%</td>
<td>2.0%</td>
<td>NO</td>
</tr>
<tr>
<td>Enterprise Fund Self-Sufficiency</td>
<td>Net enterprise fund income as a percent of revenues</td>
<td>Are enterprise funds supporting themselves?</td>
<td>greater than 0%</td>
<td>33.4%</td>
<td>NO</td>
</tr>
</tbody>
</table>

Highlighted if 2013 value does not meet FIT Guideline. Highlighted if Annual Filing data is adjusted in this workbook.
FIT also automatically calculates each ratio and presents the most recent five years of data in a graph (see Figure 2). In addition, we’ve provided a FIT guideline. Not meeting the guideline does not necessarily mean that your government has a problem, nor does meeting the guideline mean that everything is fine. The guideline is just one way to let you know that closer examination may be needed.

**Figure 2 – FIT ratios are automatically presented in a graph**

![Graph showing Days of General Fund Ending Cash over time with FIT Guideline](image)

**Where does the data come from?**

FIT uses data reported directly to the State Auditor annually, using the annual reporting system on our website (see Figure 3). If your government reports using the cash basis of accounting, FIT will be available as soon as you file your annual report. Governments that report in accordance with GAAP will soon have an option to download a spreadsheet template and manually enter their financial data.

Our auditors use the ratios shown in FIT to help them evaluate financial condition for audit purposes.

**Figure 3 – A screenshot of the Annual Reporting System**

![Screenshot of the Annual Report Submissions interface](image)

**Data limitations to be aware of**

The analysis summarized in FIT was prepared from the annual report data that your government submits to our Office. You are responsible for ensuring the accuracy of the information presented in the annual report. Depending on the frequency of your audit cycle and the age of the data, the results tables and graphs may include unaudited and uncorrected data. For this reason, the State Auditor’s Office cannot assure the accuracy of all data presented in your FIT workbook.

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**About “FIT guidelines”**

Not meeting the guideline does not necessarily indicate financial distress. We designed the guidelines to alert viewers to potential financial health concerns by comparing the ratios to our recommended thresholds.

Use your judgment and consider other financial and non-financial information whenever a potential concern with the government’s sustainability is identified.

Turn to the Other Factors section on page 10 for other things to consider while reviewing the analysis in FIT.
How to get started with FIT

The workbook is available through your government’s account online at the State Auditor’s Office website.

2. Click the FIT tab to navigate to the FIT page (illustrated in Figure 4).
3. Confirm the government name and ending year you wish to download.
4. Click the Download button to open and download the FIT Excel workbook to your desktop.
5. The tool automatically populates data from your government’s annual report submission and calculates financial ratios.

What if I don’t have an account?

If you do not already have an account that gives you access to your government’s reports, follow the instructions at the Online Services log-in webpage to create a new account.

The system will automatically send a message to your government’s audit liaison asking him or her to approve access to your government’s reports.

How to print from the workbook

You can print the entire workbook, or one tab at a time. The pages are formatted to print on an 8.5 x 11 inch sheet of paper in a landscape layout.

You can make changes to your government’s annual report data before it is audited through the Online Annual Reporting System (www.sao.wa.gov/local/Pages/LocalFile.aspx). Note that if you do make changes to your data online, you will need to close the FIT, download the Excel file again, and reopen it to view the most recent data.

If you need help understanding the financial terms used in FIT, refer to the FIT Glossary, available online at www.sao.wa.gov/local/Documents/FIT_Glossary.pdf.
How to get the most out of the Financial Intelligence Tool

Take advantage of these key FIT features:

- **Adjustments** You may wish to add an adjustment to the data in FIT to clarify or further define the information presented. For example, you may want to display the effect of interfund loans or a refunded bond. Entering data on the adjustment row will add to or subtract from the report data used to calculate the ratio. Note that you will need to save, close and reopen FIT to see changes reflected in the graphs. (An example is shown in Figure 5.)

- **Forecasting/Projections** You can manually add data for two more years in the Estimate and Projection columns in each ratio tab (shown in Figure 6).

- **FIT Guidelines** These are provided solely for purposes of financial analysis (an example is shown in Figure 7). Since FIT lets you compare ratios for the current year with earlier years, you can more easily see trends in financial performance. You can use FIT to monitor your financial health prior to an audit and work with your staff to further evaluate areas that don’t meet the guideline.

Get smart: Three questions to ask as you review FIT results

When a ratio shows something unexpected, dig deeper to find the cause. Use the ratios and analysis in the FIT Checklist (coming soon) to ask questions and start conversations about issues like these:

1. Are there any past errors or data quality problems that need to be fixed?
2. If a ratio result does not meet its guideline, is this due to a one-time variance or a long-term issue that requires action?
3. Look at how the ratios change from year to year. Are the changes caused by important shifts in your revenues or expenditures?

If you have problems using FIT and need assistance, please email us at performance@sao.wa.gov or call us at 360-260-6408 ext. 120.
About the five FIT ratios
The next section describes each ratio calculated by FIT, the FIT guideline associated with each one, and the specific BARS accounts that are used to calculate them.

FIT Guidelines
These are provided solely for purposes of financial analysis. They are not standards or audit criteria. They are based on audit analysis and financial management best practices.

What do other organizations say?
There is not one standard set of financial ratios and guidelines for local governments. Numerous organizations recommend ratios and guidelines. This section discusses some of the work done by other organizations.

What are BARS codes, and which specific BARS codes do the ratios draw on?
The State Auditor’s Office is required by state law (RCW 43.09.200) to prescribe the uniform budgeting, accounting, and reporting system (BARS) that local governments must follow. The BARS manual gives local governments the standardized chart of accounts or BARS codes that they must use to report their revenues, expenditures and expenses to the State Auditor’s Office every year. The BARS manual can be found at: www.sao.wa.gov/local/Pages/BarsManual.aspx. The ratios are calculated using the amounts entities enter into the Schedule 1 when filing their annual reports.

Data details that generate the results and graphs in the workbook

Cash Balance Sufficiency
The Cash Balance Sufficiency ratio shows, at a point in time, how many days the balance in the general fund would be able to cover operating expenditures.

**FIT Guideline:** The general fund should be able to cover operating expenditures for at least 60 days.

**Why is this guideline important?**
The ending general fund cash and investments balance is the government’s “savings account” that can be drawn on in times of need or shortfall. This ratio shows the number of days that the general fund could operate on its ending cash and investments balance.

**What do other organizations say?**
The Government Finance Officers Association (GFOA) applies the 60 day guideline. GFOA Best Practice, “Determining the Appropriate Level of Unrestricted Fund Balance in the General Fund” recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.
Which specific BARS codes does this ratio draw on?
The data for this ratio comes from the following BARS Accounts within BARS Fund 001 (General Fund):
- Ending cash & investments (BARS code: 508)
  - Reserved (BARS code: 508.10)
  - Unreserved (BARS code: 508.80)
- Operating expenditures (BARS code: 510-570)
- General Fund debt service (BARS code: 591-592)
- Transfers out (BARS code: 597)

Operating Margin
The Operating Margin ratio shows the difference between the government’s revenues and its operating expenditures and whether it is positive or negative.

FIT Guideline: The government’s revenues are greater than its operating expenditures. The ratio is greater than 0 percent.

Why is this guideline important?
Positive margins imply that revenues are sufficient to cover operating expenditures, and allow surplus funds to contribute to other areas such as capital outlay, transfers, increases in fund balance, or other uses.

A negative margin suggests that the government is spending more than it receives in revenue, and if this situation persists, it may need to reduce services or borrow funds to cover costs.

What do other organizations say?
The International City/County Management Association (ICMA) calls the operating margin “an operating deficit or surplus,” and calculates it in a very similar manner. On pages 62 and 63 of Evaluating Financial Condition: A Handbook for Local Government, author Karl Nollenberger states, “The following situations…would probably be considered negative factors:
- Two consecutive years of operating fund deficits;
- A current operating fund deficit greater than that of the previous year;
- An operating fund deficit in two or more of the last five years;
- An abnormally large deficit – more than 5 percent to 10 percent – in one year.”

Which specific BARS codes does this ratio draw on?
The data for this ratio comes from the following BARS Accounts within BARS Funds 001-3XX (All Governmental Funds):
- Operating revenues (BARS code: 310-360)
- Operating expenditures (BARS code: 510-570)
- Debt service (BARS code: 591-592)
Change in Cash Position

The Change in Cash Position ratio shows the current year’s ending cash balance and how it has changed from the previous year.

**FIT Guideline:** The current year’s ending cash balance has increased from the previous year (ratio is greater than 0%).

**Why is this guideline important?**

Change in cash position evaluates the percent change in ending cash for all governmental funds combined compared to the previous year including activity for capital outlays and other financing sources and uses. An understanding of the major causes of a change in cash position will aid in identifying a potential shortfall.

**What do other organizations say?**

ICMA calls the change in cash position “declining unreserved fund balances”. Evaluating Financial Condition A Handbook for Local Government by Karl Nollenberger states on page 68, “In states that allow it, jurisdictions usually try to operate each year at a small surplus to maintain positive fund balances and thus maintain adequate reserves.”

**Which BARS codes does this ratio draw on?**

The data for this ratio comes from the following BARS Accounts within BARS Funds 001-3XX (All Governmental Funds):

- Beginning cash & investments (BARS code: 308)
- Ending cash & investments (BARS code: 508)

Debt Load

The Debt Load ratio shows governmental fund debt service payments compared to revenues.

**FIT Guideline:** Governmental fund debt service payments are less than 12% of revenues.

**Why is this guideline important?**

Debt service represents money that has already been spent. The higher this ratio, the less flexibility a government has for future spending needs or opportunities. It is important to understand the nature of the debt, maturity and payment structure.

**What do other organizations say?**

ICMA uses net direct debt service which is the amount of principal and interest a government owes annually on direct bonded long-term debt plus interest on direct short-term debt. The debt service ratio formula calculates net direct debt service divided by net operating revenues. Evaluating Financial Condition A Handbook for Local Government by Karl Nollenberger states on page 83, “Debt service on net direct debt exceeding 20 percent of operating revenues is considered a potential problem. Ten percent is considered acceptable.”
The Municipal Research and Services Center website provides information and examples on debt capacity best practices for specific Washington local government types. View it online at: [www.mrsc.org/search/searchresults.aspx?q=debt%20capacity](http://www.mrsc.org/search/searchresults.aspx?q=debt%20capacity)

**Which specific BARS codes does this ratio draw on?**
The data for this ratio comes from the following BARS Accounts within BARS Funds 001-3XX (All Governmental Funds):

- Principal payments (BARS code: 591,593)
- Interest payments (BARS code 592)
- Governmental Fund Revenues (BARS code 310-360)

**Enterprise Self-Sufficiency**
The Enterprise Self-Sufficiency ratio shows how well charges for services and other revenues cover enterprise expenses.

**FIT Guideline:** Charges for services and other revenues collected by the enterprise fund should be greater than its expenses.

**Why is this guideline important?**
Enterprise funds are expected to recover their own costs through charges for services or other revenues. An example of this type of fund is a golf course or utility. A ratio of more than zero percent indicates that the expenses of the enterprise are paid for entirely from its own revenue. A ratio of less than zero percent indicates that the enterprise had to borrow money or be subsidized by another governmental fund through transfers.

**What do other organizations say?**
The National Advisory Council on State and Local Budgeting Practice states in Principle 2, Element 4.2.1, “A government should adopt policies that identify the manner in which fees and charges are set and the extent to which they cover the cost of the service provided.

ICMA uses enterprise operating position, which has the option to use “…operating income before depreciation (enterprise profits or losses excluding non-operating income and expense such as interest expense, interest income and property taxes) as the measurement of financial condition.” On page 66 of *Evaluating Financial Condition, A Handbook for Local Government*, author Karl Nollenberger suggests a policy statement such as: “All fees and charges for each enterprise fund will be set at a level that fully supports the direct and indirect cost of the activity.”

**Which specific BARS codes does this ratio draw on?**
The data for this ratio comes from the following BARS Accounts within BARS Funds 4XX (All Enterprise Funds):

- Ent Fund Operating Revenue (BARS code 310-360)
- Ent Fund Operating Expenses (BARS code 510-570)
- Ent Fund Transfers In (BARS code 397)
- Ent Fund Transfers Out (BARS code 597)
- Ent Fund Debt Service (BARS code 591-592)
### Other factors to consider when evaluating financial condition

The following non-financial information provides essential context to understanding the results of financial measures:

- **Known or potential changes in funding.** Is the government anticipating changes in funding levels or formulas, for example due to changing regulation, grant programs or economic factors?

- **Known or potential future cost increases.** Is the government anticipating new or increased costs?

- **Business risks.** What is the government’s exposure to property, casualty, legal, regulatory and other business risks?

- **Resources in other funds.** Are there resources in other funds that are potentially available to pay for or mitigate costs that the General Fund is currently bearing?

- **Nature, length and timing of debt service.** Is outstanding debt voted or non-voted? Was outstanding debt issued for operating or capital purposes? How long will the current level of debt service continue? Does debt include any significant balloon payments or back-loaded principal payments?

- **Contingencies.** Would any significant contingency, lawsuit, guarantee or other obligation or uncertainty threaten the government’s financial condition if realized?

- **Capital planning.** Are land holdings, rights-of-way, infrastructure and building capacity sufficient to meet projected future service demand, or will new acquisitions need to be made?

- **Capital asset condition.** How much useful life is left in the government’s equipment and facilities?

- **Revenue flexibility.** To what extent is the government able to increase taxes, assessments, fines, fees or other revenue sources as needed?

- **Spending flexibility.** What activities or expenses could be eliminated or reduced if needed?

Note that governments reporting on a cash basis will have less ability to gauge their financial position and results of operations because they do not report non-cash assets and liabilities.

### Contact us with your suggestions

We will continue to refine the Financial Intelligence Tool, including making it available to government organizations that use GAAP accounting practices. We want to know what would make it more useful to elected and appointed officials as well as staff and managers from your local government. Please email your comments and suggestions to **performance@sao.wa.gov** or call the Local Government Performance Center at 360-260-6408 ext. 120.

### Special thanks to...

The State Auditor’s Office has worked with local government officials and experts in the field of financial management to develop the financial intelligence tool, and with staff at its offices statewide to implement the FIT roll-out.
FIT Glossary of Financial Terms

This glossary provides definitions of various technical terms used in the Financial Intelligence Tool (FIT) and the FIT Handbook. Note that these terms may have other definitions that are not applicable to the tool.

To search the document for a specific term, use the “Control+f” (“Command+f” on a Mac) keystrokes to open a search box that will allow you type in the desired term and find it quickly.

Adjustments – Additions or subtractions to financial amounts on the FIT workbook that were originally reported to the State Auditor’s Office by the entity. An adjustment may be needed to correct a previous error, explain an interfund loan, etc.

Annual report filing – Annual financial reports are required by state law (RCW 43.09.230) to be filed with the Washington State Auditor’s Office within 150 days after the close of each fiscal year. Further guidance can be found in the Budgeting Accounting and Reporting System (BARS) manual on the State Auditor’s website.

Back-loaded principal payments – A type of debt payment structure where principal payments are heavily weighted to be paid at the end of the loan period. This structure maximizes the interest that must be repaid.

Balloon payments – A type of debt payment structure where an additional large payment is due at a specified period, usually at the maturity period of the loan.

BARS – Budgeting, Accounting and Reporting System – The BARS Manual is a document explaining accounting and financial reporting requirements for local governments. The BARS manual is prepared by the State Auditor’s Office in accordance with state law (RCW 43.09.200). The cash basis BARS manual is online at: www.sao.wa.gov/local/BarsManual/Pages/BarsManual_Cash.aspx

Basis of accounting – A method of how and when to record financial transactions based on accounting principles. In Washington, most governments report in accordance with generally accepted accounting principles (GAAP) or other comprehensive basis of accounting (OCBOA) such as the BARS cash basis.

Bonds/issuing bonds – A method governments may use to borrow money. A bond is a written agreement to pay back a specified sum of money or principal, at a specified date or dates in the future, with a specified rate of interest.

Capital assets – Items such as equipment, bridges, buildings or land that are intended to be held for a long period of time.

Capital outlay – An outflow of cash or payments for long-lived capital assets (defined above).

Cash basis of accounting – An accounting method that records revenue at the time cash is received and expenditures (expenses) when cash is disbursed. This accounting system operates like a checkbook.

Contingency – A contingent event is one that may, but is not certain to, take place; for example, “contingency funds” are set aside to cover possible needs during a project. Loss contingencies (expenditures and liabilities) are reported if they are probable and measurable. Gain contingencies (revenues and assets) are not reported until they are actually realized.
**Debt service** – Financial resources that are required to satisfy long term legal debts for bonds, loans, etc. This may refer to either the entire amount that will be repaid or the payment required during the current period.

**Enterprise fund** – A fund used to report activities primarily financed with revenue that a government receives by charging fees for goods and services. It is also referred to as a business-like activity such as a golf course or utility.

**Fixed assets** – An accounting term that refers to items with a long useful life such as equipment, bridges, buildings, land, etc. In the 1990s, this term was replaced in accounting literature with “capital assets” (defined above).

**Fund** – Governmental accounting systems are organized and operated on a fund basis. Each fund is considered to function as a separate fiscal and accounting entity. It is similar to maintaining a separate checkbook for specified activities. Guidance for establishing funds is based on certain objectives or restrictions placed on the resources used for the stipulated activities. In Washington, local governments must use the fund structure prescribed by the State Auditor’s Office in the BARS manual (see entry above).

**Fund balance ending/beginning** – For cash basis entities, this refers to the amounts of cash and investments available at a period of time, either the end or beginning of the fiscal year. When using FIT, remember to distinguish between reserved and unreserved fund balances in governmental and proprietary funds.

**General fund** – This governmental fund is used to account for and report all financial resources not accounted for and reported in another fund. For reporting purposes a local government can have only one general fund. This fund is also commonly known as the current expense fund.

**General obligation bond (GO bond)** – Bonds or money that the government borrows and guarantees to repay using taxes and other revenues they have available. Also see definition of bonds above.

**GAAP reporting** – Generally Accepted Accounting Principles – Uniform standards and guidelines for financial accounting and reporting set by an authoritative body. These rules govern the form and content of the accounting records and financial statements of an entity. The primary authoritative body on GAAP for state and local governments is the Governmental Accounting Standards Board (GASB).

**Governmental funds** – This fund type is used to account for transactions related to tax supported governmental activities. Examples are fire, police, general government, transportation, health and human services, etc. There are five governmental fund types: general fund, special revenue funds, capital project funds, debt service funds, and permanent funds.

**Interfund loans** – Resources loaned by one fund to another with an expectation of repayment with interest. The resources received should not be reported as revenue in the receiving fund. Specific legal requirements are required to be followed when making interfund loans.

**Intergovernmental revenues** – Revenues received from other governments in the form of grants, entitlements, shared revenues, or payments in lieu of taxes.

**Internal service funds** – An accounting treatment for funds that accounts for resources provided by one department to another department in the same government.

**Liabilities** – Debt or other legal obligations which must be paid for at some future date.

**Maturity** – The time it takes for debt contract requirements to become completed. Example: a bond being paid off in 30 years will have a maturity of 30 years after its starting date. Many contracts refer to the maturity date, or the expected date which all of the contract requirements will be satisfied.

**Miscellaneous revenues** – The classification used to account for a group of several minor revenue streams when they are combined. It is more cost effective to track this single category than to account for each minor revenue stream separately.

**Net operating revenue** – An input to the operating margin ratio for governmental funds equal to the total governmental funds revenue less operating expenditures and debt service.

**Net enterprise fund transfers in(out)** – An input to the enterprise fund self-sufficiency ratio equal to the difference between enterprise fund transfers-in minus enterprise fund transfers-out.

**Operating margin positive or (negative)** – A ratio used to show whether revenue is greater or less than total expenditures plus current debt service in governmental funds. A positive value indicates resources are sufficient to cover current spending. A negative value indicates additional resources are required to sustain the activity at its current level and pay debt service.
Other financing sources and uses – A general governmental accounting classification used to report inflows and outflows of resources that do not meet criteria to be classified as revenues, expenditures or expenses. Examples of other financing sources are resources from bond proceeds and transfers in. An example of an other financing use is a transfer out.

Proprietary funds – A fund used to account for business-like activities. Examples are enterprise funds and internal service funds.

Refunding – A term used to describe the payoff or retirement of bonds before their scheduled maturity. Usually a refunding is used to replace old debt with a high interest rate with new debt at a lower interest rate.

Reserved fund balance (cash basis only) – Cash and investments with restrictions imposed on them by external parties (for example, grantors or creditors) or internal commitments. Internal commitments are limitations imposed by the highest level of government (board of commissioners, city council, board of directors, board of supervisors, etc.) through a formal action (ordinance, resolution) that requires a similar formal action on the same level to remove them. Resource limitations resulting from intended use or informal action by either legislators or managers are not sufficient to classify the resources as reserved and should be reported as unreserved.

Revenue – External resources received by a government and used to support the activities it provides. Revenue encompasses money received from taxes, fees, charges and grants. It does not include bond proceeds, refunding bond proceeds, sale of assets, interfund loans or interfund transfers. These resources should be accounted for as other financing sources.

Revenue bond – Bonds or borrowed money that the government guarantees to repay using a specific type of revenue. Also see definition of bond above.

Special purpose districts – An independent unit of local government organized to perform a single governmental function or a restricted number of related functions. Some special purpose districts have the power to incur debt and levy taxes. However, certain types of special districts are entirely dependent upon charges for services for revenue and cannot impose taxes. Examples of special purpose districts include water districts, drainage districts, flood control districts, hospital districts, fire protection districts, school districts, transit authorities, port authorities, public utility districts, and irrigation districts.

Transfers in and out – One fund provides unrestricted or uncommitted resources to another fund of the same government, without the expectation of repayment. The fund receiving the resources records a transfer-in and the fund providing the resources records a transfer-out.

Unreserved fund balance (cash basis only) – The amount of cash and investments held by a government that do not have restrictions on their use. Resources with informal limitations placed on them by either legislators or managers should be reported as unreserved.

Additional glossary resources
See the Glossary of Accounting Terms in the Appendices section of the Cities, Counties and Special Purpose Districts (Cash Basis) BARS Manual, available online at: http://www.sao.wa.gov/local/Pages/BarsManual.aspx