


To: Members of Dublin City Council
From: Dana L. McDaniel, City Manager 
Date: October 30, 2018
Initiated By: Angel L. Mumma, Director of Finance
Jerry O'Brien, Chief Accountant
Re: Auditor of State Financial Health Indicators Report

Background

The Office of the Auditor of State of Ohio (Auditor) has completed the Financial Indicators Report for the City for 2017. The Auditor's Office began issuing Financial Indicators Reports for counties and cities based on FY 2015 data to help them determine if they are experiencing fiscal stress. The report consists of 17 financial health indicators (FHI) which "are a series of financial information, percentages, and ratios gathered from annual financial statements, filed by local governments, which are useful in predicting financial stability." The report instructs the reader to consider all of the indicators and analyze those that might present an issue. The report should be read in conjunction with the Frequently Asked Questions (FAQ) document written by the Auditor's staff and available to the public on the Auditor's website. The answers to these questions are helpful in understanding various aspects of the report and what they mean.

For each of the FHI, the report uses three categories to characterize whether the trend in the data represents a positive outlook, cautionary outlook, or critical outlook. In the report, these three categories are identified by the colors green, yellow or red, respectively. The report states, "FHI will be used to recognize early signs of fiscal stress at specific local governments and take a proactive approach to monitoring or assisting these local governments" to identify and correct negative financial trends before the negative trends lead to more serious fiscal distress.

The City's Finance 2017 Financial Health Indicator Report

In the City's report, two of the seventeen financial indicators were identified as "yellow" or a "cautionary outlook". These indicators are identified in the report as Indicator #7 and Indicator #12. Fourteen of the other indicators were categorized as "green", which indicates a "positive outlook" and one was "black", which indicates not applicable.

Staff analyzed the yellow indicators using Comprehensive Annual Financial Report (CAFR) data represented in the report and internal data used to compile the CAFR to determine the reasons for the trends. Background for the information and the analysis of those indicators which are "cautionary" and those which changed (improved) from the 2016 report is presented below.

The report was compiled using the financial data from the City's CAFR for the years 2014, 2015, 2016, and 2017. The report only looks at governmental activities. It does not look at business-type activities. Governmental activities consist of functions of the City that are principally supported by taxes and intergovernmental revenues while business-type activities are intended to recover all or a

significant portion of their costs through user fees or charges. The governmental activities of the City include general government, community environment, basic utility services, leisure time activity, security of persons and property, public health services, and transportation. The business-type activities of the City include the water system, the sanitary sewer system, and the merchandising operations.

While the City (along with the majority of other public entities in Ohio) operates on a cash basis throughout the year (recognizing revenue at the time of receipt and expenditures at the time the payment is made), much of the financial information in the CAFR is compiled using the accrual basis of accounting, as required by the Auditor and the Governmental Accounting Standards Board (GASB). Accrual basis accounting includes information such as receivables and payables, long-term debt, and capital assets. These components represent amounts not yet received or paid, as well as non-cash assets. Accrual basis accounting is not looking at cash balances of funds. Reconciliations are required in the financial statements to show how the accrual basis information relates to cash basis activity.

The CAFR presents government-wide financial statements which are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector business. They consist of all information for governmental activities combined into one column and all business-type activities combined into another column. The two government-wide statements are the statement of net position and the statement of activities.

The CAFR also presents fund financial statements which are composed of information for each fund. A fund is a grouping of related accounts that is used to maintain control over resources that are segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

INDICATOR 1 – Unrestricted Net Position of Governmental Activities

2015 Status – Cautionary Outlook (Yellow)

2016 Status – Cautionary Outlook (Yellow)

2017 Status – Positive Outlook (Green)

The statement of net position is the first of the two government-wide statements within the CAFR, which presents information on all of the City's assets, deferred outflows/inflows of resources, and liabilities with the difference reported as net position. Net position is composed of three categories: net invested in capital assets, restricted, and unrestricted. Net invested in capital assets is the amount of capital assets after subtracting depreciation that has been applied to date and debt used to purchase the assets. Restricted net position represents resources restricted by legal or contractual

purposes to specific purposes. Unrestricted net position represents the remaining resources that can be used for any purpose of the government.

In order to understand the chart and the amounts used in Indicator 1 of the FHI report, it must be noted that the chart excludes the effect of GASB Statement 68, "Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27". As explained below, the pension liability presented in the City's financial statements as a result of implementing GASB Statement 68 does not represent a liability that the City will have to pay from its resources.

As a matter of background, beginning in 2015 the City was required to implement GASB Statement 68, "Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27", which significantly revised accounting for pension costs and liabilities. When accounting for pension costs, GASB 27 focused on a funding approach which limited pension costs to contributions made by entities to the pension systems in accordance with state law. Those contributions may or may not have been sufficient to fully fund each pension system's net pension liability. GASB 68 takes an earnings approach to pension accounting in that entities net pension liability equals the entity's proportionate share of each pension plan's collective present value of estimated future pension benefits attributable to active and inactive employees' past service less plan assets available to pay the benefits. In Ohio, the employee and employer share in the obligation of funding pension benefits, with the rates capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. In Ohio, there is no legal means to enforce the unfunded liability of the pension system as against the public employer. As such, the liability for the pension will not be repaid from City resources. A more detailed explanation of the pension liability is provided in the Management's Discussion and Analysis in the 2017 CAFR starting on page 25.

In 2016, the unrestricted net position of governmental activities decreased \$19.3 million from 2015. There were two reasons for this negative trend. The most significant reason was due to an increase in noncapital debt. In 2015, the City entered into a State Infrastructure (SIB) Loan agreement with the State of Ohio for \$35.1 million for improvements to the Interstate 270/US 33 Interchange. This amount represents the City's \$10.1 construction commitment and the Mid-Ohio Regional Planning Commission's (MORPC) construction commitment of \$25 million. During 2016, the City received proceeds from the loan in the amount of \$18.6 million. At year-end, \$18.2 million was outstanding which is being reported as a liability. The liability was reported in the unrestricted net position category due to the fact that the I-270/U.S. 33 Interchange will not be an asset of the City, but rather, will be reported as an asset of the State. Normally, the amount of outstanding debt reduces the restricted category of net invested in capital assets. It offsets the capital assets purchased or constructed. However, according to GASB standards, when debt is issued for construction of assets that will be reported by another entity, the liability is reported in unrestricted net position.

The second reason for the negative trend was due to projects in the capital projects funds. Many of these funds have negative fund balances because projects are started with advances to those funds which will be paid back with TIF revenues as they are received in the future. The expenditures are made from the advances for the projects which reduces the cash but the liabilities for the advances reduce the fund balance to negative amounts. According to GASB, negative net position cannot be reported in the restricted net position category but must be reclassified to the unrestricted category of net position. In 2016, \$57.9 million in negative net position was reclassified from the

restricted for capital projects to unrestricted net position. This was an increase of \$3.2 million from 2015, which reduced unrestricted net position.

In 2017, the unrestricted net position of governmental activities increased \$49,700 from 2016. This positive change in net position from 2016 to 2017 caused Indicator 1 to change from yellow to green. Most of the numbers that make up the unrestricted net position were stable from 2016 to 2017. The year-end outstanding balance of the SIB Loan increased \$6.3 million, thereby decreasing unrestricted net position. However, the General Fund year-end balance increased \$7.1 million which negated the effect of the increase in the SIB Loan. The total amount of the General Fund Balance is included in unrestricted net position in the statement of net position. The most significant reason that the General Fund balance increased was due to a decrease in land purchases in 2017 from 2016. Another contributing factor to the change in expenses was a decrease in economic incentive payments in 2017 from 2016 due to the expiration of some of the agreements.

INDICATOR 2 – Unassigned Fund Balance of the General Fund

2015 Status – Cautionary Outlook (Yellow)

2016 Status – Cautionary Outlook (Yellow)

2017 Status – Positive Outlook (Green)

Unassigned fund balance is found in the balance sheet of the General Fund. Fund balance in governmental funds is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are nonspendable, restricted, committed, assigned and unassigned. The two that have a bearing on the discussion of this indicator are the nonspendable and unassigned classifications.

The **nonspendable** fund balance category includes amounts that cannot be spent because they are not in a spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criteria includes items that are not expected to be converted to cash such as supplies and materials inventory. The **unassigned** fund balance category is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications.

The decrease in unassigned fund balance of the General Fund presented in Indicator 2 is due to advances being made from the General Fund to various capital projects funds (i.e. TIF funds). Advances to other funds are reported on the governmental funds balance sheet as an asset because they are long-term receivables from other funds. Because they will not generally be paid back in the next year and are therefore not available to spend, they are reported in nonspendable fund balance rather than unassigned fund balance.

In 2015, advances to other funds in the General Fund were \$35.6 million. In 2016, advances to other funds were \$46 million. This represents an increase of advances to other funds from 2015 to 2016 of \$10.4 million. Since advances to other funds are reported in the nonspendable fund balance classification rather than in unassigned fund balance, nonspendable fund balance was increased while unassigned fund balance was decreased.

The unassigned balance is the amount left over after every other category of fund balance. Advances to other funds is the only item included in these other categories that is significantly affecting the unassigned fund balance. This does not indicate the General Fund is experiencing financial stress. Overall, fund balances in the General Fund for 2015 and 2016 were \$93,540,844 and \$97,322,899, respectively, which represents an increase in total fund balance for each year. In the City's case, the decrease in unassigned fund balance is indicative of an increase in capital projects.

In 2017, the unassigned fund balance increased \$12.6 million. This was an increase of 22.7%. This positive change in unassigned fund balance changed this indicator from cautionary to a positive outlook for 2017. In 2017, the amount of advances to other funds was comparable to 2016 so this did not play a significant role the prior to current year change. The primary factor that contributed to the increase in unassigned fund balance was expenditures decreased in 2017 from 2016 approximately \$13.2 million. There were two significant factors that contributed to this decrease in expenditures. The first was that capital outlay decreased in 2017 due to the purchase of two parcels of land for economic development purposes in 2016. The second factor was a decrease in economic development incentive payments in 2017 from 2016 due to the expiration of some of these agreements.

INDICATOR 7 – Decline in General Fund Income Tax Revenue

2015 Status – Positive Outlook (Green)

2016 Status – Positive Outlook (Green)

2017 Status – Cautionary Outlook (Yellow)

The Statement of Revenues, Expenditures and Changes in Fund Balance is the fourth statement in the basic financial statements of the CAFR. This statement presents the revenues, expenditures, and other financing sources/uses for governmental funds. The General Fund is shown as a separate column within this statement.

Indicator 7 determines whether there is a declining trend in a significant revenue source of the City. It does this by calculating the ratio of the change in income taxes to total income taxes in the General Fund. The threshold for an entity to be placed in the cautionary category for this indicator is a decline in income tax revenue from the prior year to the current year by more than 1%.

In 2016, the General Fund had \$63.1 million in income tax revenue and \$61 million in 2017. This represented a decrease of \$2.1 million, or a decrease of approximately 4%. This decrease was primarily due to two large employers relocating out of the City.

INDICATOR 9 – General Revenues of GTA/Net Expenses of GTA

2015 Status – Positive Outlook (Green)

2016 Status – Critical Outlook (Red)

2017 Status – Positive Outlook (Green)

The statement of activities is the second of the government-wide statements within the CAFR, which presents information on the City's revenues and expenses as a whole. The statement is divided into two categories, one for all governmental activity and one for all business-type activities. The

statement presents the expenses first and then deducts the program revenues to present the amount of expenses reduced by revenues generated by specific programs. The expenses not covered by program revenues are subtracted from general revenues, which include the various categories of taxes, investment income, intergovernmental revenues that do not meet the criteria of program revenues, and miscellaneous revenues, to determine the increase or decrease in net position for the year. Transfers are below the general revenues on the statement of activities and are excluded from the calculation in Indicator 9.

Indicator 9 looks at whether revenues are sufficient to pay expenses in governmental activities. This is determined by looking at the change in net position, which is calculated according to the description above. A ratio of less than 100% is the benchmark for a critical outlook and a declining trend in the ratio for at least three years is the benchmark for a cautionary outlook.

In 2014, there was an increase in net position of governmental activities of \$29.1 million. This means there were \$29.1 million more revenues than expenses. In 2015, the increase in net position was \$22.4 million. There were sufficient revenues to pay for expenses but the comparison of the change in net position of 2014 to 2015 indicated a negative trend of \$6.8 million.

In 2016, the change in net position was (\$2.3) million. This indicated a negative trend in the change of net position from 2015 of \$24.2 million. The total decrease for the three year period was \$32 million. Since the ratio in 2016 was less than 100%, Indicator 9 showed a critical outlook.

The negative trend in net position during the period from 2014 to 2016 is primarily due to an increase in expenses. For this period, total expenses increased \$28.9 million. The majority of this increase was in 2016. From 2014 to 2015, expenses increased \$6.9 million and from 2015 to 2016, expenses increased \$22 million. The majority of these increases is related to projects that did not meet the criteria to be capitalized. In 2016, one of the significant projects in this category was the Bridge Street Parking Structures, which will not be capitalized because it will not be a City asset. Other expenses that are budgeted as capital expenditures but are not capitalized are for maintenance agreements for IT and other equipment. Maintenance programs such as for street maintenance, guardrail maintenance, parking lot maintenance, pavement preventative maintenance, and shared use path maintenance are not capitalized but reported as expenses on the statement of activity.

For the four year period from 2014 to 2017, general revenues decreased \$4.1 million. The largest decrease was in income taxes of approximately \$4.8 million. Service payments in TIF funds increased approximately \$870,000.

In 2017, expenses decreased \$13.1 million. This decrease was primarily due to expenses that incurred in 2016 relating to the I-270/U.S.33 Interchange Project and the Bridge Street Parking Garage Project. The decrease in expenses in 2017 was sufficient to show a positive trend in the ratio which was calculated at 109%. For 2017, Indicator 9 had a positive outlook.

INDICATOR 12 – Debt Service Expenditures/Total Revenues

2015 Status – Positive Outlook (Green)

2016 Status – Positive Outlook (Green)

2017 Status – Cautionary Outlook (Yellow)

Indicator 12 is the ratio of total debt service expenditures (principal and interest) to total revenues for all governmental funds. This benchmark indicates the percentage of revenues that is being used for debt service payments. The benchmark for the designation of a cautionary outlook is a ratio between 12% and 15%.

The City's ratio for 2017 was 12.3% and in 2016, it was 9.7%. The 2017 ratio was more than the minimum percentage and therefore caused the Indicator to show a cautionary status. The increase from 2016 to 2017 was mainly due to the principal on three debt issues and interest on two issues.

It was the first year for principal payments on the Riegle Property Note Payable and the 2015 Bridge Street Improvements Bonds. Also, SIB Loan principal payments increased in 2017. The total amount of additional principal for these debt issues was \$2.1 million. There were first year interest payments in 2017 for the 2017 Pedestrian Bridge/N. High Street Bonds and the 2017 Service Center Renovation/Expansion Bonds in the amount of approximately \$400,000.

The MORPC portion of the SIB Loan is recorded on the City's statement of net position but MORPC is responsible for repayment of the principal amount of its portion. The money for the repayment is paid by MORPC and never is receipted by the City as it is automatically deducted by the State of Ohio from their funding and applied directly to the loan. The full amount of the liability is also presented on the statement of net position as a receivable and an entry is done during the compilation of the financial statements to reduce both the receivable and the liability for the loan. This entry is not entered into the City's accounting system but is entered into the system that is used to compile the statements. The liability and the receivable do not affect cash since the City never handles the money for MORPC's principal portion of the debt service.

Although the City would be liable for the loan if MORPC defaulted, for the purposes of considering cash needs for debt service, the SIB loan could be taken out of the calculation for Indicator 12. If it is excluded from the calculation, the ratio for Indicator 12 would only be 11.4%. This would be under the benchmark for cautionary status for 2017 and would indicate a positive status.

It should be noted that in the frequently asked questions about the FHI report, one of the questions asked whether a critical or a cautionary status for Indicator 12 is always reflective of fiscal distress. The answer given is no. The answer goes on to explain that,

Many times local leaders have made conscious decisions that may, because the FHI report is an automated process, trigger an indicator as having a "critical" (red) or "cautionary" (yellow) outlook. Those decisions are purposeful and usually are not indicative of a problem.

CONCLUSION

The Auditor's report cautions that "No individual FHI indicator is of use in identifying overall fiscal stress". It goes on to say "These indicators must be considered together to obtain insight as to whether or not an entity is experiencing the signs of fiscal stress." This is because one or more ratios may not give a true picture of the financial condition of an entity or be indicative of a problem. In a government with complex finances, many of the financial statement components being analyzed

in this report, especially in the government-wide statements, contain several aspects of financial operations.

Moreover, in the FAQ document published by the Auditor's Office, one of the questions posed was, "Does a "red" or "yellow" indicator reflect poor management of the city or county? The answer provided was, "No". It goes on to say in part:

The FHI report is not intended to criticize the operating decisions made by individual entities. Many times local leaders have made conscious decisions that may, because the FHI report is an automated process, trigger an indicator as having a "critical" (red) or "cautionary" (yellow) outlook. Those decisions are purposeful and usually are not indicative of a problem.

Therefore, each ratio not categorized as positive must be analyzed to determine the underlying reason or reasons for the trend. It then must be considered in conjunction with all of the other ratios to gain a true picture of the financial condition of the entity. According to the Auditor's analysis, for entities reporting on the GAAP basis of accounting, six red indicators or a combination of eight red and yellow indicators implies fiscal stress. After analysis of the reasons behind the trends in the report for the City, these two yellow indicators do not reflect any fiscal distress.

Recommendation

Information only. Attached for Council's review are two documents:

- The City of Dublin Final 2017 Report
- The Financial Health Indicator – Frequently Asked Questions and Answers

In the spirit of full transparency to our residents, staff will post the City's Final 2017 Report along with the Special Report, FAQ and this memo on the Finance page of the City's website.



City Of Dublin
Franklin County
Year Ended: December 31, 2017
Accounting Basis: GAAP

Final 2017 Report

2017 Financial Health Indicators at a Glance:

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17

Critical Outlook Financial Health Indicators: 0

Cautionary Outlook Financial Health Indicators: 2

Ohio Revised Code Section 118.025 requires the Auditor of State to “develop guidelines for identifying fiscal practices and budgetary conditions, amongst municipal corporations, counties, and townships that, if uncorrected, could result in a future declaration of fiscal watch or emergency.” In addition to these fiscal caution guidelines, the Auditor of State has developed Financial Health Indicators (FHI). FHI are a series of financial information, percentages, and ratios gathered from annual financial statements, filed by the local governments, which are useful in predicting financial stability. FHI will be used to recognize early signs of fiscal stress at specific local governments and take a proactive approach to monitoring or assisting these local governments, rather than only a reactive approach after declaration of fiscal caution, watch, or emergency.

Seventeen (17) FHI have been identified as useful in determining signs of fiscal stress. Sixteen (16) of the indicators are based on information derived from the entity’s audited financial statements. Indicator 17 is based on the citations/recommendations results from the most current audits.

No individual FHI is of use in identifying overall fiscal stress. These indicators must be considered together to obtain insight as to whether or not an entity is experiencing the signs of fiscal stress. The entity should review, in detail, any individual FHI identified as having a critical or cautionary outlook to determine areas of potential concern that would require evaluation of goals/objectives in order to ensure fiscal stability is maintained.

In the pages that follow, you will find the detail of each Financial Health Indicator. The effects of implementation of GASB 68 for pensions have been removed from the applicable line items for consideration of Financial Health Indicators 1, 3, 13 and 16. Critical outlook indicators are identified in red, cautionary outlook indicators are identified in yellow, and positive outlook indicators are identified in green as described below:

Critical Outlook:

The more serious of the outcomes of the FHI analysis. An indicator with a Critical Outlook signals a potential high risk of fiscal stress. The entity should review the cause of the Critical Outlook indicator and consider steps necessary to alleviate the condition.

Cautionary Outlook:

Although not as serious as an FHI with a Critical Outlook, an indicator with a Cautionary Outlook signals a situation of which the entity should be aware. The entity should review the cause of the Cautionary Outlook indicator since, left unchecked, it could develop into a Critical Outlook indicator.

Positive Outlook:

This entity does not meet a Critical or Cautionary Outlook as defined above.

Not Applicable:

This entity did not report data for this indicator or the data for determination of the indicator is unavailable.

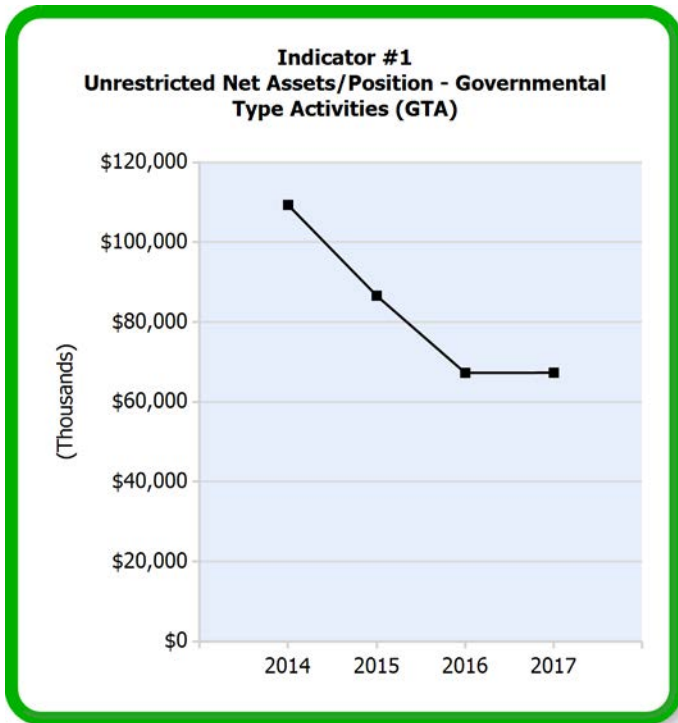
Please refer to the accompanying spreadsheet for calculation of the each Financial Health Indicator, the Financial Statement Data used in those calculations, and the type of audit opinion issued for audited financial statements.



City Of Dublin
Franklin County
Year Ended: December 31, 2017
Accounting Basis: GAAP

Final 2017 Report

Indicator #1 - Positive Outlook



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

Unrestricted net assets/position represents the portion of net position that has no related liabilities or restriction as to use.

Description of indicator and what it means:

This indicator identifies when an entity has a declining or negative unrestricted net assets/position.

Why is it 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.

Critical Outlook – Zero or negative amount

Cautionary Outlook – Decline between the current and prior year by more than a 1%

Indicator #2 - Positive Outlook

Unassigned Fund Balance of the General Fund

Unassigned fund balance is the portion of fund balance that has no related liabilities or has not otherwise been obligated.

Description of indicator and what it means:

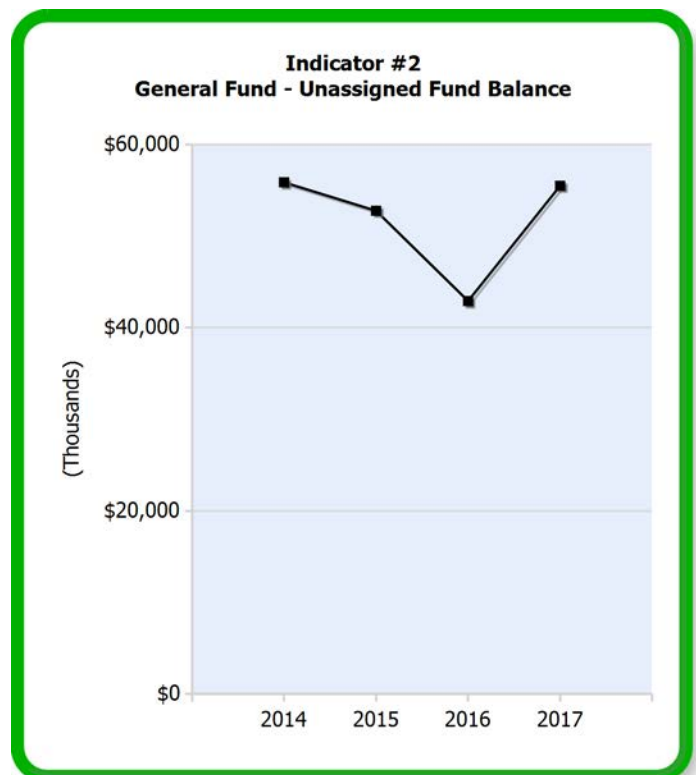
This indicator identifies when an entity has a declining or negative unassigned fund balance.

Why is it 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.

Critical Outlook – Zero or negative amount

Cautionary Outlook – Decline between the current and prior year by more than a 1%





City Of Dublin
Franklin County
Year Ended: December 31, 2017
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Final 2017 Report

Indicator #3 - Positive Outlook

Change in Unrestricted Net Assets/Position - GTA

Description of indicator and what it means:

This indicator identifies changes (increases or decreases) in unrestricted net assets/position from the prior years to the current year and is useful in identifying local governments whose unrestricted net assets/position is deteriorating.

Why is it important?

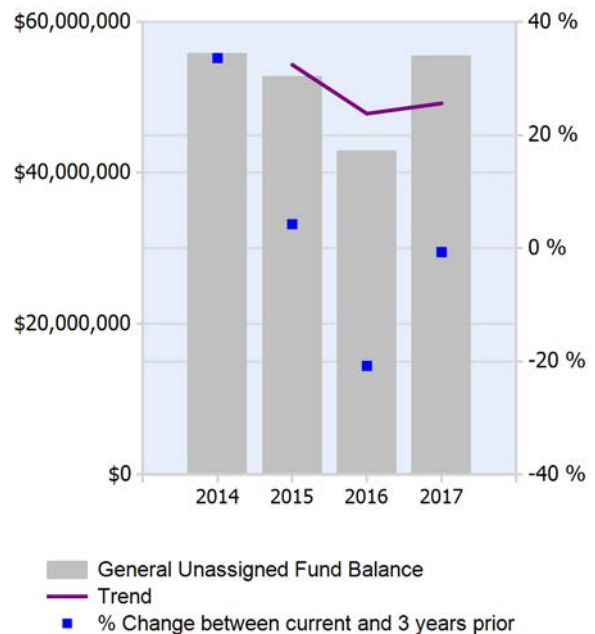
A declining unrestricted net assets/position can be a sign of fiscal stress. This indicator is important in identifying a trend of deteriorating unrestricted net assets/position as well as how rapidly it is deteriorating.

Critical Outlook – The current period and at least two of the previous three periods reflect a zero or negative amount **OR** a rapidly declining trend defined as a decline in each of the last 3 periods with a drop of greater than 20%

Cautionary Outlook – Declining trend defined as a decline in each of the last 3 periods with a drop of 10% to 20%

Indicator #4 - Positive Outlook

Indicator #4 Change in General Fund Unassigned Fund Balances



Change in General Fund Unassigned Fund Balances

Description of indicator and what it means:

This indicator identifies changes (increases or decreases) in unassigned general fund balance from the prior years to the current year and is useful in identifying local governments whose unassigned general fund balance is deteriorating.

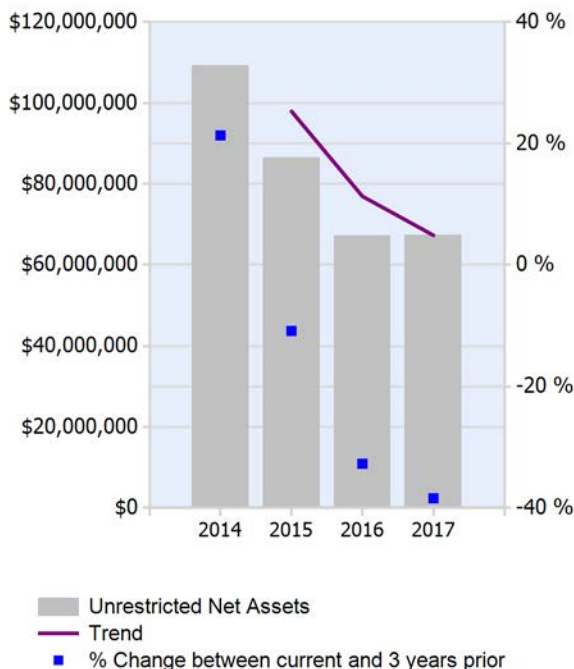
Why is it important?

A declining unassigned general fund balance can be a sign of fiscal stress. This indicator is important in identifying a trend of deteriorating unassigned general fund balance as well as how rapidly it is deteriorating.

Critical Outlook – The current period and at least two of the previous three periods reflect a zero or negative amount **OR** a rapidly declining trend defined as a decline in each of the last 3 periods with a drop of greater than 20%

Cautionary Outlook – Declining trend defined as a decline in each of the last 3 periods with a drop of 10% to 20%

Indicator #3 Change in Unrestricted Net Assets/Position - GTA



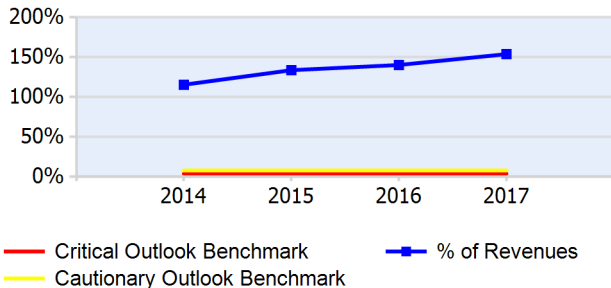


City Of Dublin
Franklin County
Year Ended: December 31, 2017
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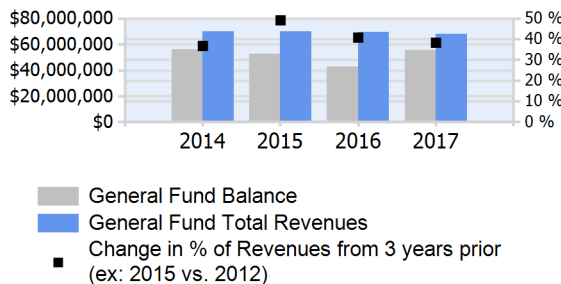
Final 2017 Report

Indicator #5 - Positive Outlook

Indicator #5
Total General Fund (GF) Balance/GF Revenues



Indicator #5
Total General Fund (GF) Balance/GF Revenues



Total General Fund (GF) Balance/GF Revenues

Description of indicator and what it means:

This indicator identifies reserves available in the General Fund. The larger the reserve the better the entity is able to absorb, in the short term, the impact of sudden revenue loss or significant increases in operating costs and begin planning financial adjustments.

Why is it important?

This indicator identifies a low reserve of fund balance even if Indicators 1 through 4 do not indicate negative unrestricted net assets/position or unassigned fund balance.

Critical Outlook – Negative percentage, very low percentage (<1/24th or 4%), **OR** if fund balance is less than a 2 month carryover (17%), a rapidly declining trend defined as a drop of 10% or greater over a 3 year period.

Cautionary Outlook – Low percentage (< 1/12th or 8%) **OR** if fund balance is less than a 2 month carryover (17%), a declining trend defined as a drop of 5% - 10% over a 3 year period **OR** if fund balance is less than 6 months (50%), a decline in each of the last 3 periods.

Indicator #6 - Not Applicable

Decline in General Fund Property Tax Revenue

Description of indicator and what it means:

This indicator reflects the percentage change from year to year for property tax revenue.

Why is it important?

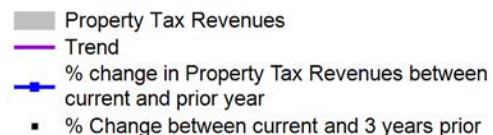
This indicator reflects declines in property tax revenues and is an indication that an entity may be facing financial hardship due to declines in significant revenue sources. It also will reflect the need for additional sources of revenue to maintain stability.

Critical Outlook – If Property Tax Revenues represent 7-20% of Total General Fund Revenues(#), a trend of declining tax revenue over the last 3 years in excess of 20% **OR** if Property Tax Revenues represent greater than 20% of Total General Fund Revenues(#), a trend of declining tax revenue over the last 3 years in excess of 10%.

Cautionary Outlook – Decline in property tax revenue from the current to the prior year by more than 1%

- Please refer the accompanying data sheet for the calculation of the % of total revenue

Indicator #6 **Change in General Fund Property Tax Revenue**





City Of Dublin
Franklin County
Year Ended: December 31, 2017
Accounting Basis: GAAP

Final 2017 Report

Indicator #7 - Cautionary Outlook

Decline in General Fund Income Tax Revenue

Description of indicator and what it means:

This indicator reflects the percentage change from year to year for income tax revenues.

Why is it important?

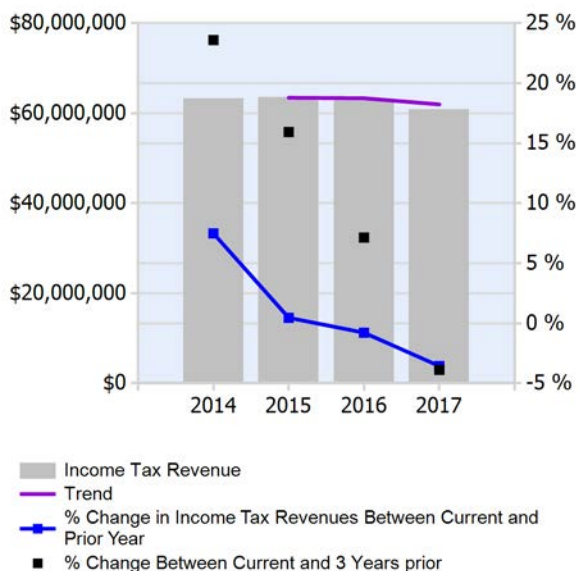
This indicator reflects declines in this revenue type and is an indication that an entity may be facing financial hardship due to declines in significant revenue sources. It also will reflect the need for additional sources of revenue to maintain stability.

Critical Outlook – If Income Tax Revenues represent 7-20% of Total General Fund Revenues(#), a trend of declining tax revenue over the last 3 years in excess of 20% **OR** if Income Tax Revenues represent greater than 20% of Total General Fund Revenues(#), a trend of declining tax revenue over the last 3 years in excess of 10%

Cautionary Outlook – Decline in income tax revenue from the current to the prior year by more than 1%

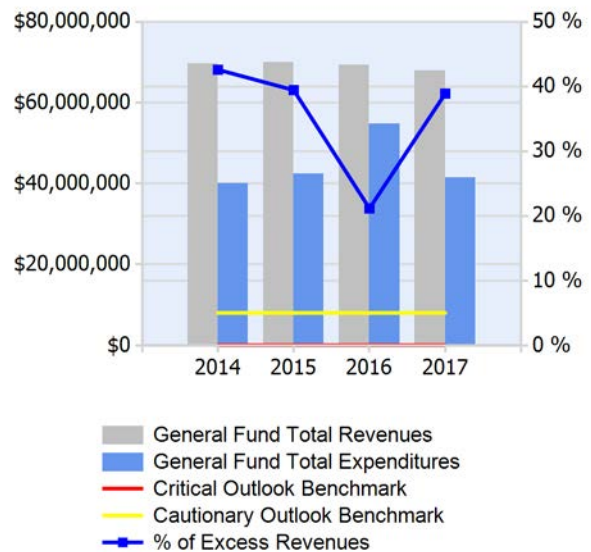
- Please refer the accompanying data sheet for the calculation of the % of total revenue

Indicator #7
Change in General Fund Income Tax Revenue



Indicator #8 - Positive Outlook

Indicator #8
Percentage of General Fund Revenues that Exceed General Fund Expenditures



Percentage of General Fund Revenues that Exceed General Fund Expenditures

Description of indicator and what it means:

This indicator is calculated as total General Fund revenues less total General Fund expenditures, divided by total General Fund revenues. It will provide an indication of operating deficits and the size of the operating deficit compared to the current year budget. An operating deficit is the difference between revenues and expenditures. If expenditures exceed revenues, an operating deficit exists.

Why is it important?

This indicator is important because it reflects if an operating deficit exists, but also emphasizes the size of the deficit as compared to the current year's budget. This is an indication of the shortage in the current budget. A trend of operating deficits indicates potential financial hardship.

Critical Outlook – Negative percentage

Cautionary Outlook – Low percentage (< 1/20th or 5%)

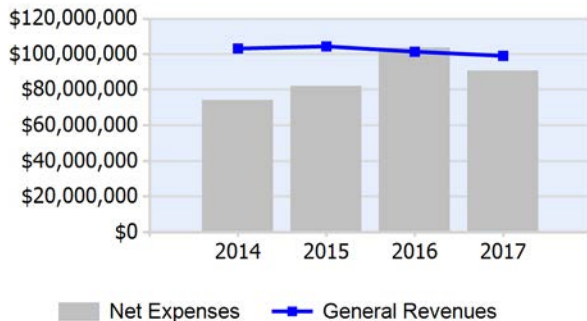


City Of Dublin
Franklin County
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Indicator #9 - Positive Outlook

Indicator #9
General Revenues of GTA / Net Expenses of GTA



Ratio of General Revenues of GTA / Net Expenses of GTA



General Revenues of GTA / Net Expenses of GTA

Description of indicator and 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.

Why is it important?

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

Critical Outlook – Ratio less than 100%

Cautionary Outlook – Declining trend of at least 3 years

Indicator #10 - Positive Outlook

General Fund Intergovernmental Revenues as a Percentage of Total General Fund Revenues

Description of indicator and what it means:

This indicator will reflect an over-reliance on intergovernmental revenues which are subject to state and federal budget cuts. A high percentage suggests the entity is heavily reliant on external governmental organizations for grants, entitlements, or shared revenues; and therefore, vulnerable to decreases in these revenue sources.

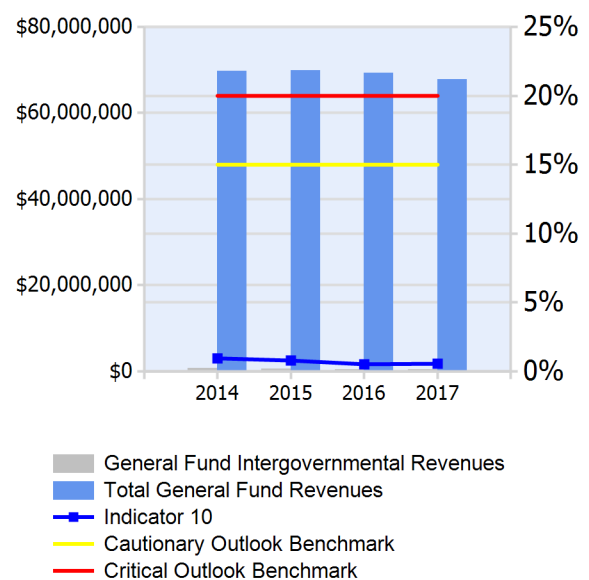
Why is it important?

It is important to be aware of the percentage of total revenues that are not considered "own-source," or local sources of revenue. Understanding the percentage of total revenues derived from intergovernmental sources is important when trying to maintain fiscal stability while dealing with an economic downturn.

Critical Outlook – Ratio greater than 20%

Cautionary Outlook – Ratio between 15% - 20%

Indicator #10
General Fund Intergovernmental Revenues as a Percentage of Total General Fund Revenues





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Indicator #11 - Positive Outlook

Condition of Capital Assets

Description of indicator and what it means:

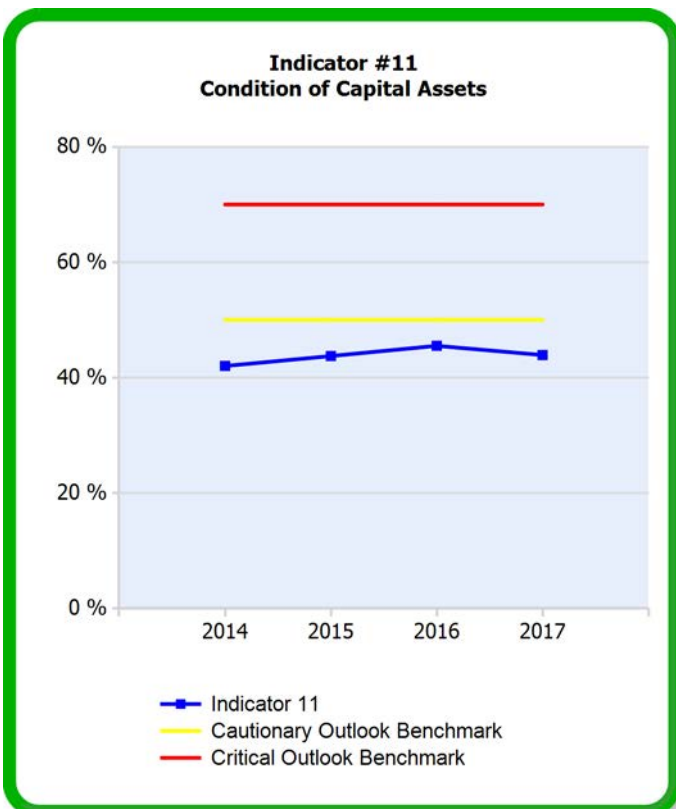
This indicator is accumulated depreciation as a percentage of depreciable capital assets. This indicator will identify apparent situations in which repair or replacement of the local government's capital assets will be necessary. A high percentage indicates capital assets replacement is imminent, and the entity may be delaying replacement of capital assets or significant repairs for cash flow purposes.

Why is it important?

When an entity delays improving or replacing capital 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.

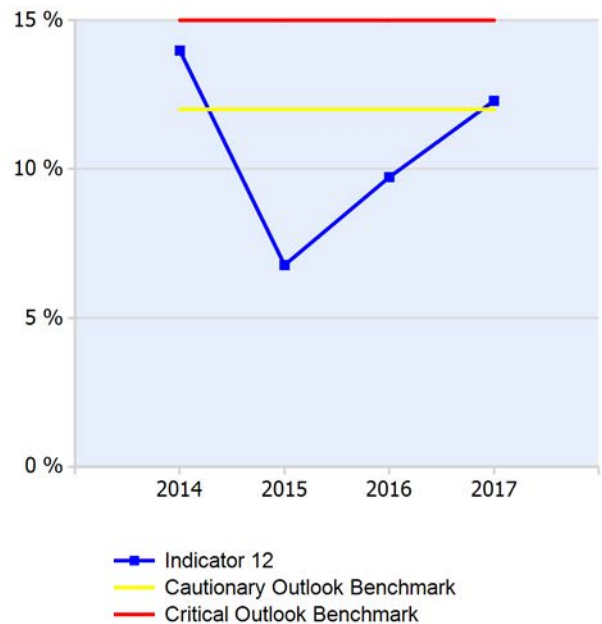
Critical Outlook – Ratio greater than 70%

Cautionary Outlook – Ratio between 50% - 70%



Indicator #12 - Cautionary Outlook

Indicator #12 Debt Service Expenditures / Total Revenues



Debt Service Expenditures / Total Revenues

Description of indicator and what it means:

This indicator is total debt service expenditures divided by total revenues (for all governmental funds). This indicator identifies the percentage of the budget used/needed for repayment of debt.

Why is it important?

Higher debt service expenditures to total revenues is unfavorable since the entity spends more of its current budget on debt repayment. An increasing trend of debt service expenditures to total revenues may mean the percentage of budget dedicated to debt payments is increasing; and therefore, less revenue will be available for capital asset repair/replacement or meeting current operating demands.

Critical Outlook – Ratio greater than 15%

Cautionary Outlook – Ratio between 12% - 15%



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

Description of indicator and what it means:

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 is it important?

These indicators are important because they identify the number of 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. These indicators provide an early indication of an entity's need to adjust their financial/expenditure planning.

Critical Outlook– Zero days or below

Cautionary Outlook – Less than 30 days

Indicator #13 - Positive Outlook

Indicator #13
Unrestricted Net Assets / Position of GTA / Average
Daily Expenses of GTA



Indicator #14 - Positive Outlook

Indicator #14
Unassigned Fund Balance of the General Fund /
Average Daily Expenditures of the General Fund



Indicator #15 - Positive Outlook

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

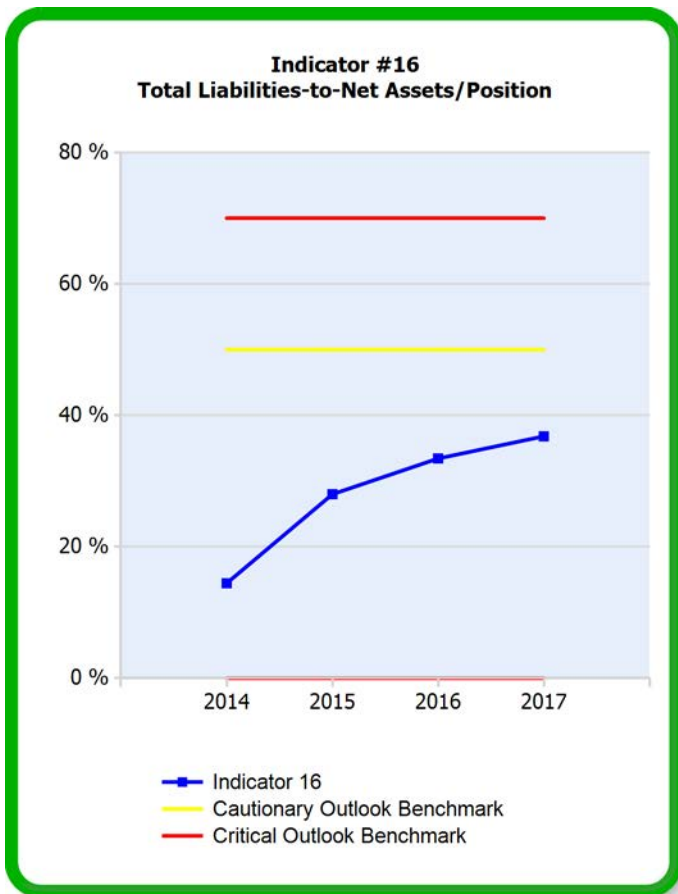




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Indicator #16 - Positive Outlook



Total Liabilities-to-Net Assets/Position

Description of indicator and 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 is it important?

This indicator identifies entities that are overextended in terms of the percentage of every dollar which is owed to others.

Critical Outlook – Negative ratio (which indicates negative net assets) OR ratio greater than 70%

Cautionary Outlook – Ratio between 50% - 70%

Indicator #17 - Positive Outlook

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

Description of indicator and what it means:

This indicator identifies if an entity's recent audit reports include budgetary non-compliance and/or unreconciled/unauditable financial records. Results are presented for the four (4) most recently audited years; however, the indicator #17 determination is only based on the current and prior two (2) audited years.

Why is it 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.

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

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

Indicator #17 Budgetary Non-Compliance and/or Unreconciled/Unauditable Financial Records?

Audited Year End	Applicable
2017	No
2016	No
2015	No
2014	No



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Financial Health Indicators at a Glance History:

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
2017																	
2016																	
2015																	

Please refer to each year's FHI report and datasheet for detailed information

QUESTIONS ?

More detailed information regarding the Financial Health Indicators can be found on our website at <https://ohioauditor.gov/FHI/default.html>

If you have additional questions, please email: FHIndicators@ohioauditor.gov

or contact:

Ohio Auditor of State's Office
88 E. Broad St.
Columbus, Ohio 43215

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Dave Yost • Auditor of State

Auditor of State of Ohio Financial Health Indicators Frequently Asked Questions and Answers

Updated March, 2018

This document includes frequently asked questions related to the Auditor of the State of Ohio's (AOS) Financial Health Indicators (FHI) reports for cities and counties. Additional information the individual FHI reports are available at www.ohioauditor.gov/fhi.

GENERAL INFORMATION

Q: Why is the AOS providing Financial Health Indicator (FHI) reports for all cities and counties in Ohio?

A: Ohio Revised Code Section 118.025 requires the AOS to "develop guidelines for identifying fiscal practices and budgetary conditions, amongst municipal corporations, counties, and townships that, if uncorrected, could result in a future declaration of fiscal watch or emergency." In addition to the fiscal caution guidelines, the AOS has developed the FHI reports.

Q: What are financial health indicators?

A: The FHI are a series of financial information, percentages and ratios gathered from the annual financial statements filed by city or county, as well as the entity's audit results, which are useful in predicting financial stability.

Q: What is the purpose of the FHI report for each city or county in Ohio?

A: The FHI report is designed to recognize early signs of fiscal stress in order to take a proactive approach to assist these local governments rather than only a reactive approach when an entity is at the point of being declared in fiscal emergency, watch or emergency.

Q: How were the FHI developed?

A: The process began in 2011 with research to identify other states that were using financial indicators for similar purposes. The goal was to learn from those experiences by understanding their processes and evaluating which indicators they chose to use. Additional research from accounting literature, the Government Finance Review, and the International City/County Management Association was examined to help identify ratios and other financial indicators that are proven predictors of financial stability. While many useful financial ratios and indicators

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exist, the AOS wanted to utilize the best indicators of an entity's financial stability that were also readily available from the financial statements and audit results of cities and counties.

A collection of financial information, percentages and ratios gathered from these financial statements was used to build a five-year history of data. The most beneficial and determinative method to test the proposed FHI was on those cities and counties that had already been placed in fiscal caution, watch or emergency. In each case, the FHI identified a trend of increasing fiscal stress emerging two to three years prior to the entity's financial stress worsening and being placed in fiscal caution, watch or emergency. These trends helped establish benchmark criteria needed to determine a city or county's financial outlook.

Q: How and how often is a FHI report generated for each city or county?

A: The FHI reports are generated via an automated reporting process twice for each reporting year. A preliminary FHI report is generated at the time the city or county completes its required annual filing of its financial statements with the AOS via the Hinkle Annual Financial Data Reporting System (Hinkle System). The preliminary report is based on the current year's unaudited financial statement data provided by the individual city or county and the audited financial data from previous years. The final FHI report for each reporting year is generated when the audit has been completed for reporting year.

QUESTIONS RELATED TO THE FHI REPORTS AND DATA SHEETS

Q: How many indicators are included in a FHI report?

A: Seventeen (17) FHI have been identified as useful in determining signs of fiscal stress when an entity reports on the Generally Accepted Accounting Principles (GAAP) basis. If a city or county reports on the cash basis or modified cash basis of accounting, two of the indicators (#11 and #16) are not applicable.

Q: What is the difference between GAAP financial statements and cash/modified cash basis financial statements?

A: The GAAP basis of accounting reports assets and liabilities, including capital assets and long term obligations, of the entity in accordance with the requirements adopted by the Government Accounting Standards Board (GASB). It is the "standard" for financial reporting and the mandated accounting basis for all cities and counties in Ohio. The cash basis of accounting reports only cash transactions which have occurred during the reporting period. A modified cash basis of accounting includes cash transactions and modifications which are related to a cash transaction. The most common modification applied is recording long term investment activity.

Q: What data does the AOS use to calculate the financial indicators?

A: The data for indicators 1 through 16 is based on financial data from the individual entity's financial statements submitted to the AOS via the Hinkle System and any adjustments as a result of the audit. Indicator 17 is based on the citations/recommendation results from the most current audits of the entity.

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Q: How many years of financial statement/audit data are required to generate a FHI report?

A: Seven (7) years of financial statement data on the same basis of accounting and audit data are required to generate an entity's FHI report.

Q: Why would seven (7) years of a city or county's financial statement data on the same basis of accounting not be available? Do they still receive a FHI report when that occurs?

A: All cities and counties in Ohio are mandated by statute to present their financial statements on a GAAP basis; however, some cities or counties choose to present their financial statements on an "other comprehensive basis of accounting" (OCBOA). The three most common OCBOA presentations for entities in Ohio are the cash basis, a modified cash basis or a regulatory cash basis.

If an entity chooses to present on a cash or modified cash basis for seven (7) consecutive years, a FHI report will be generated; however, indicators #11 and #16 cannot be calculated because the data to perform those calculations are not included in cash/modified cash financial statements.

For the situations described below, the indicators cannot be calculated and the entity will receive a one-page FHI report which indicates that the indicators cannot be generated and will indicate the basis of accounting presented for the current and previous periods:

- If an entity has switched between GAAP and an OCBOA basis of accounting, and therefore has not presented financial statements on the same basis for seven (7) consecutive years;
- For some cities, an increase in census population changed them from a village to a city within the past seven (7) years. Villages are not mandated to prepare financial statements on a GAAP basis; therefore, the entity may have presented its financial statements on an OCBOA basis of accounting as a village and a GAAP basis of accounting as a city;
- A few entities choose to report on the OCBOA regulatory cash basis of accounting. This basis of accounting is only intended for very small entities in the State and is not appropriate for GAAP-mandated entities, such as cities or counties. Because reporting on a regulatory basis will always result in an adverse opinion on the entities financial statements, the Hinkle System does not include a method to collect data for this basis of accounting for cities or counties.

Q: What is included in an individual entity's FHI report?

A: The cover page of the FHI report includes the color-blocks representing the financial health indicators at a glance with the number of "critical" outlook and "cautionary" outlook indicators identified, a description of the purpose of the report, definitions of each the colors for indicator results and a reference to the accompanying data sheet (discussed in an FAQ below). If any

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audit report utilized for the FHI report resulted in other than an unmodified opinion, the cover page will also disclose that fact.

Following the cover page, the detail for each of the 17 FHI is included. For each indicator, the report will describe the indicator, what it means and why it is important. The condition(s) which will generate a “critical” outlook (red) or a “cautionary” outlook (yellow) are identified. Also, for each indicator, graphs or charts are included to reflect the calculations of the indicator for the current and prior year periods. The result of the outlook for indicator critical (red), cautionary (yellow), positive (green) or not applicable (black) will be reflected after the indicator number and in the color of the box that surrounds the graph or chart.

Final FHI reports for periods ended in 2016 and beyond include a history of the financial health indicators at a glance for the current and up to four (4) preceding years, if available.

Q: At the top of each FHI report, a color grid of Financial Health Indicators at a Glance is reflected. Can you explain what this is and what the colors represent?

A: The colors are based on a “stop light” and represent the result of each indicator for the specific entity as follows:

Critical Outlook - An indicator resulting in a “red” or critical outlook is the more serious of the outcomes of the FHI analysis. An indicator with a critical outlook signals a potential (not actual) high risk of fiscal stress.

Cautionary Outlook – Although not as serious as an FHI with a critical outlook, an indicator with a “yellow” or cautionary outlook signals a situation of which the entity should be aware.

Positive Outlook – A “green” or positive outlook indicates the entity did not meet the critical or cautionary outlook criteria for the specific indicator.

Not Applicable – A “black” or not applicable result indicates the entity did not report data for this indicator (for example, if an entity did not report property tax revenues, indicator #6 would result in a black or not applicable result) or the data for determination of the indicator is unavailable (for example, the data for indicate #17 is not available for a preliminary report because the audit has not been completed for the reporting period.)

Q: Why is the word “outlook” used if the data to calculate the indicator is retrospective (i.e. from the past)?

A: While it is true past financial and audit data is utilized to calculate the indicators, the purpose of the FHI report is prospective (i.e. forward looking) to identify entities that, based on the indicator results, are currently experiencing or are on a path toward fiscal stress or distress and can benefit from proactive rather than reactive assistance from the AOS.

Q: Is “fiscal stress” now the new term for “fiscal emergency”? **[NEW]**

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A: "Fiscal stress" is not a new term for "fiscal emergency." "Fiscal emergency" is a statutorily defined term in [Ohio Revised Code 118](#). When referring to any of the statutory designations (fiscal emergency, fiscal watch or fiscal caution), the generic term "fiscal **distress**" is used. "Fiscal stress" means, based on the financial health indicator (FHI) results, an entity is experiencing a financial situation similar to entities that have historically been placed in fiscal emergency, fiscal watch or fiscal caution.

Q: How do the results of the indicators assist with identifying entities that may be experiencing signs of fiscal stress? **[UPDATED]**

A: Based on the research to develop the FHI, the entities which were already in fiscal distress (fiscal caution, watch or emergency) all scored poorly in at least nine (9) of the 17 indicators and all had at least six (6) indicators with a critical outlook (red). When the FHI were analyzed using financial data for those distressed communities two to three years before their conditions worsened, all entities scored poorly in at least a combination of eight (8) critical outlook (red) and/or cautionary (yellow) indicators. Based on these results, for entities reporting on the GAAP basis of accounting, six (6) "red" indicators implies fiscal stress is occurring and a combination of eight (8) "red" and/or "yellow" indicators (with less than six (6) "red" indicators) implies, unless changes occur, the entity could experience fiscal stress in two to three years. For entities reporting on the cash basis or a modified cash basis of accounting, four (4) "red" indicators implies fiscal stress is occurring and a combination of six (6) "red" and/or "yellow" indicators (with less than four (4) "red" indicators) implies, unless changes occur, the entity could experience fiscal stress in two to three years.

Q: My entity's FHI results include some indicators that are reported as a "critical" (red) or "cautionary" (yellow) result. Does that indicate my entity is in fiscal stress or could be declared in a state of fiscal caution, watch or emergency?

A: No individual FHI is of use in identifying overall fiscal stress or predicting that an entity will be placed in a status of fiscal caution, watch or emergency. The previous FAQ identified when, based on historical information, an entity would appear to be experiencing fiscal stress.

Q: Does a "cautionary outlook" (yellow) indicator relate to the designation of "fiscal caution"? Is receiving one or more "yellow" indicators representative of an entity that will be placed in "fiscal caution" status?

A: No. The word "caution" in these two terms is not related and is not representative of an entity that will be placed in fiscal caution status. Remember, the FHI colors were based on a "stop light" where a yellow light indicates to proceed with caution.

Q: Does a "red" or "yellow" indicator reflect poor management of the city or county?

A: No. The FHI report is not intended to criticize the operating decisions made by individual entities. Local officials cannot control whether government leaders at federal or state levels make policy changes that impact their finances. Many times local leaders have made conscious

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decisions that may, because the FHI report is an automated process, trigger an indicator as having a “critical” (red) or “cautionary” (yellow) outlook. Those decisions are purposeful and usually are not indicative of a problem.

Q: Does a “positive” outlook (green) indicator result mean it should not be reviewed/considered by the entity?

A: No. The information provided by each indicator is of value in reviewing the entity’s overall outlook. Although an indicator resulted in a “green” indicator, review of the details may indicate the entity may be “close” to the criteria for a “yellow” or possibly “red” indicator in the future.

Q: How do I determine the specific amounts/calculations for the entity’s indicators?

A: With each FHI report, a data sheet is provided which includes the calculations for the specific indicators at the top and the entity’s financial statement data, from which the indicators are calculated, at the bottom. The indicators are calculated for the current and previous three (3) reporting periods, and the financial statement data is reflected for the current and six (6) previous reporting periods.

Q: How do I obtain more information about an entity’s financial information beyond what is contained in the data sheet?

A: The FHI report is meant to accompany an entity’s full financial statements, including notes to the financial statements, which are included in their audit reports. Because the FHI report is an automated process, specific information related to why an indicator may reflect a spike or drop in revenues or expenditures or why an individual indicator for a specific entity may trigger a critical (red) or cautionary (yellow) outlook should be available in the entity’s full financial statements.

Q: Our entity’s FHI report reflects one or more indicators with a “critical” (red) or “cautionary” (yellow) outlook; however, the reason(s) the indicator(s) met the reflects outlook were due to a unique situation and/or a conscious decision made by our entity’s leaders. To add clarity for public understanding, it is possible for the FHI report to include additional explanation or may our entity post a response to the FHI report to explain the situation and/or decisions affecting individual indicator outlooks?

A: The FHI reports are **generated automatically** from the financial statement data submitted by each entity as part of its Hinkle System filing and the financial statements included in the entity’s audit report, and as noted in the previous FAQ, the FHI report is intended as a companion report to the entity’s annual financial statements and audit report. However, if necessary, the city or county may post an explanation and/or additional information regarding the entity’s FHI report on its website to assist the public in gaining understanding.

Q: What is an unmodified opinion on the financial statements? What are the other possible audit opinions?

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A: An **unmodified opinion** is expressed when the auditor concludes the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework. The auditor is required to modify the opinion when the auditor either concludes that based on the audit evidence obtained, the financial statement are materially misstated or if the auditor is unable to obtain sufficient audit evidence to conclude the financial statements are free from material misstatement.

There are 3 types of modified opinions:

- A **qualified opinion** is expressed when the auditor, having obtained sufficient audit evidence, concludes that misstatements, individually or in aggregate, are material but not pervasive to the financial statements or if the auditor is unable to obtain sufficient audit evidence on which to base the opinion, but the possible effects on the financial statements of undetected misstatement, if any, could be material but not pervasive.
- An **adverse opinion** is expressed when the auditor, having obtained sufficient appropriate audit evidence, concludes the misstatements, individually or in aggregate, are both material and pervasive to the financial statements.
- A **disclaimer of opinion** is issued when the auditor is unable to obtain sufficient audit evidence on which to base an opinion, and the auditor concludes the possible effects on the financials statements of undetected misstatements, if any, could be both material and pervasive.

Q: My entity reports on a GAAP basis of accounting, and the FHI report indicates the effects of GASB 68 for pensions has been removed from FHI #1,3,13 and 16. What is GASB 68 and why is it being removed?

A: The Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions,” addresses accounting for defined benefit and defined contribution pension plans.

The four major multiple employer pension plans in Ohio include Ohio Public Employees Retirement System (OPERS), Ohio Police & Fire Pension Fund (OP&F), State Teachers Retirement System of Ohio (STRS), and the School Employees Retirement System of Ohio (SERS). Local government employers contribute to OPERS, OP&F, STRS and SERS and the major plans that are offered by these four pension systems are defined benefit, cost-sharing plans. The requirements of this Statement apply to all State and local governments in Ohio with a Generally Accepted Accounting Principles (GAAP) reporting requirement per OAC 117-02-03(B).

Essentially, GASB 68 requires public employers to include the proportionate share of the unfunded pension liability associated with the statewide pension plans on the Statement of Net Position. Since, in Ohio, the amount a public employer must contribute to its pension obligation is capped by law, the reporting of the liability by a local government that is not responsible for, and may never become responsible for, dramatically distorts the financial condition of that local government. Therefore, we have removed the net effect of reporting the liability associated with

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these four statement wide systems from the calculations of FHI #1, 3, 13 and 16 by deducting the pension liability from the entity's **unrestricted** net asset/position amount. The calculation for this reduction is included in the data sheet which accompanies the entity's FHI report.

Note: For 2015, it was assumed the entity allocated all of the pension liability to the unrestricted net assets/position. If an entity's pension liability is allocated to both unrestricted and restricted, the calculated net asset/position without the effect of the pension liability may be artificially inflated and result in a false-positive indicator.

For 2016 and beyond, entities provide the percentage of the pension liability allocated to unrestricted and restricted net asset/position as part of their Hinkle System annual filing. The unrestricted net assets/position allocated to the pension liability, based on the percentage provided, is calculated before the pension liability is deducted. Information regarding this calculation is included in the data sheet that accompanies each FHI report. This calculation eliminates the potential for the net effect of the removal of the pension liability to be artificially inflated and result in a false-positive indicator; however, this correction may result in a false-negative indicator in 2016 for entities that allocate a portion of their pension liability to restricted net asset/position, but will be resolved for 2017 and beyond.

Q: How do I determine why an individual indicator's assessment was determined?

A: Each indicator is a reflection of different financial information and/or audit results. It is best to begin by reading the description of the indicator and why it is important. Before analyzing the graph or chart, it is helpful to read the criteria of the "critical" outlook (red) and "cautionary" outlook (yellow) for that specific indicator. For some indicators, there are multiple criteria which will trigger the "red" or "yellow" outlook; therefore, multiple data points are typically included to illustrate what the indicator is measuring.

Q: Could there be situations in which a critical (red) or cautionary (yellow) outlook indicator is generated which should not be cause for concern?

A: Absolutely. As mentioned earlier, the FHI report is a computer-generated report based on established criteria. It cannot analyze/provide the reason(s), beyond the data provided, that an individual city or county met the criteria for a critical (red) or cautionary (yellow) outlook for an individual indicator. Please refer to the questions related to specific indicators below for some examples.

QUESTIONS RELATED TO THE HEAT MAPS

Q: What is a "heat map"?

A: A "heat map" is a grid of the "indicators at a glance" presented for each entity. Therefore, the rows of the "heat map" reflect the FHI results for each city or county; while the columns of the "heat map" are reflective of the potential of the same fiscal stresses that are affecting like-entities. More "yellow" or "red" indicators are reflective of the "heat" or fiscal stress that may exist.

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Q: Can you explain the “filing status” column on the heat map?

A: The filing statuses relate to an entity’s annual Hinkle Annual Financial Data Reporting System (Hinkle System) filing and its audit status as follows:

- **Final** – The audit has been completed for the reporting year.
- **Preliminary** – The entity has filed their unaudited financial statement; however, the audit has not been completed for the reporting year.
- **Not Started or In Progress** – The entity has not filed their unaudited financial statement via the Hinkle System, and the audit has not been completed for the reporting year.
- **Incomplete Data** – The entity’s financial statements were not reported on a consistent accounting basis for seven (7) consecutive years by choice or due to changing from a village to a city; or the entity reported on a regulatory basis of accounting. For these situations, the entity will only receive a one-page report indicating why the indicators cannot be generated.

An asterisk (*) after a Final or Preliminary filing status indicates the audit opinion issued for one or more of the years used in the FHI analysis for the entity was other than unmodified. The specific year(s) will be identified in the data sheet accompanying the FHI report. For more information, please refer to the entity’s audit report(s).

Q: Is there a method to compare the FHI results for a specific entity over several years, for entities in the same geographic location, for entities of similar size and/or for a specific indicator? **[NEW]**

A: Absolutely! Functionally has been added to our [website](#) to allow for all of these types of comparisons. To compare all the FHI results for a specific entity over several years, for entities in the same geographic location or for entities of similar size, click the “Main Search” button and select the criteria for the entity, entity type, county, accounting basis, filing status, filing year, population and/or budget. To compare a specific indicator, click the “Trend Search” button and select the criteria for the indicator number, specific entity, entity type, county and/or accounting basis.

After selecting the criteria, click the “search” button to generate the selected “heat map” on the screen. Clicking on the up/down arrows next to the column titles enable sorting by a specific indicator such as population. Once the selected heat map has been generated and sorted on the screen, click the “Export to PDF File” button to create a file to print or save.

QUESTIONS RELATED TO SPECIFIC INDICATORS

Indicator #2 – Unassigned Fund Balance of the General Fund

Q: What does “unassigned” fund balance mean?

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A: There are five (5) components of fund equity for the General Fund of an entity – 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.

Indicators #6 and 7– Decline in General Fund Property Tax Revenue (Indicator 6) and Decline in General Fund Tax Revenue (Income Tax-Cities and Sales Tax-Counties) (Indicator 7)

Q: If Indicators 6 or 7 reflect a “critical” outlook (red) or “cautionary” outlook (yellow), is that always reflective of fiscal stress?

A: No, as stated in an earlier FAQ, many times local leaders have made conscious decisions that may, because the FHI report is an automated process, trigger an indicator as having a “critical” (red) or “cautionary” (yellow) outlook. Those decisions are purposeful and usually are not indicative of a problem. For example, an entity may have determined it’s financially able to reduce tax rates or it may provide tax exempt status to a business in order to stimulate job growth. Alternatively, an entity may have already implemented a correction, such as a tax increase; however, those increased tax revenues will not be reflected until they are due/collected in subsequent periods.

Indicator #12 – Debt Service Expenditures as a Percentage of Total Revenues

Q: If Indicator 12 reflects a “critical” outlook (red) or “cautionary” outlook (yellow), is that always reflective of fiscal stress?

A: No, as stated in an earlier FAQ, many times local leaders have made conscious decisions that may, because the FHI report is an automated process, trigger an indicator as having a “critical” (red) or “cautionary” (yellow) outlook. Those decisions are purposeful and usually are not indicative of a problem. For example, an entity may “rollover” short-term note debt to take advantage of more favorable rates or while waiting for an event to occur before incurring long-term debt. Similarly, an entity may be fiscally strong and able to pay long-term debt early. In these situations, the debt service expenditures would increase and likely trigger a “red” or “yellow” #12 indicator; however, the entity has make an informed-decision that is not reflective of fiscal stress.

Q: Why are the thresholds for indicator different between cities and counties? How were they determined? Will the thresholds change in the future?

A: The percentages are averages based on five (5)-year historical rolling data by entity type. They will continue to be analyzed in the future to determine if modification is required.

Q: Will a “critical” outlook or “cautionary” outlook for indicator #12 affect our outstanding credit/debt rating?

A: The FHI report is not intended to impact credit or debt ratings. It is an automated report designed to identify entities that are experiencing or may, in the near future, experience fiscal stress or distress. As indicator in an earlier FAQs regarding this indicator and the results of one

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indicator, no individual “red” or “yellow” indicator result is of use in identifying overall fiscal stress and individual entities may make well-informed decisions that are purposeful but may meet the criteria to generate a “critical” or “cautionary” outlook for indicate #12.

QUESTIONS/ASSISTANCE FROM THE AOS

Q: I have a question that is not addressed in these FAQs or in the documents/information on the AOS website. How should I proceed?

A: If you have question/issue regarding the FHI reporting process, please email the AOS at FHIIndicators@ohioauditor.gov.

Q: My entity’s FHI report reflects several areas of fiscal stress. How do I reach out to the AOS for proactive assistance to review our fiscal situation and help alleviate the stress?

A: The AOS’ Local Government Services (LGS) will be available to cities and counties to assist with reviewing your FHI reports and provide guidance. Please email LGS at ContactLGS@ohioauditor.gov.