

24th Annual Government Finance Institute
October 4, 2007
Early Warning Signs – Financial Risk Assessment

- (1) For the prior 5 fiscal years, the General Fund has increased its ending fund balance because Revenues and Other Sources of Funds exceeded Expenditures and Other Uses of Funds. When the books were closed for the 2005-06 fiscal year, the financial statement read as follows. Looking at the chart below, is this an early warning sign that would put a governmental body's financial position at risk?

General Fund	FY 2005-06
Revenues	\$38,592,259
Expenditures	38,324,024
Other Sources of Funds	312,597
Other Uses of Funds	775,296
Net Change in Fund Balance	(194,464)
Beginning Fund Balance	\$6,093,460
Ending Fund Balance	\$5,898,996

- (2) Deficit spending occurred in FY 2005-06 and again in FY 2006-07; however, it was less than the previous year's deficit. Looking at the chart below, is this an early warning sign that would put a governmental body's financial position at risk?

General Fund	FY 2005-06	FY 2006-07
Revenues	\$38,592,259	\$42,367,994
Expenditures	38,324,024	42,683,245
Other Sources of Funds	312,597	272,949
Other Uses of Funds	775,296	0
Net Change in Fund Balance	(194,464)	(42,302)
Beginning Fund Balance	\$6,093,460	\$5,898,996
Ending Fund Balance	\$5,898,996	\$5,856,694

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- (3) Deficit spending occurred in FY 2005-06 and again in FY 2006-07; however, it was more than the previous year's deficit. Looking at the chart below, is this an early warning sign that would put a governmental body's financial position at risk?

General Fund	FY 2005-06	FY 2006-07
Revenues	\$38,592,259	\$42,367,994
Expenditures	38,324,024	42,983,245
Other Sources of Funds	312,597	272,949
Other Uses of Funds	775,296	0
Net Change in Fund Balance	(194,464)	(342,302)
Beginning Fund Balance	\$6,093,460	\$5,898,996
Ending Fund Balance	\$5,898,996	\$5,556,694

- (4) At the end of the fiscal year, the General Fund showed a deficit in the current position in the current year balance sheet. Looking at the chart below, is this an early warning sign that would put a governmental body's financial position at risk?

General Fund	FY 2005-06
Assets	\$6,194,341
Total Assets	\$6,194,341
Liabilities	\$6,300,725
Fund Balance	(106,384)
Total Liabilities & Fund Balance	\$6,194,341

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(5) For the prior 5 fiscal years, the General Fund experienced 3 years of deficit spending in a 5 year period. Looking at the chart below, is this an early warning sign that would put a governmental body's financial position at risk?

General Fund	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07
Revenues	\$34,374,219	\$32,872,453	\$35,061,008	\$38,592,259	\$42,367,994
Expenditures	33,946,656	34,387,475	35,551,692	38,324,024	42,983,245
Other Sources of Funds	378,819	254,495	572,789	312,597	272,949
Other Uses of Funds	791,101	20,617	56,905	775,296	0
Net Change in Fund Balance	15,281	(1,281,144)	25,200	(194,464)	(342,302)
Beginning Fund Balance	\$7,334,123	\$7,394,404	\$6,068,260	\$6,093,460	\$5,898,996
Ending Fund Balance	\$7,394,404	\$6,068,260	\$6,093,460	\$5,898,996	\$5,556,694

(6) Governments create contingency reserve funds, which are sometimes called "rainy day funds" in order to cushion the probabilities of budget shortfalls. Such reserves are a good method to ensure a continuous flow of public service without resorting to disruptive practices such as hiring freezes. Looking at the chart below, are any of cities' financial position at risk?

	Total General Fund Revenues	Unreserved - Ending Fund Balance	% of Fund Balance to Total Revenues
City A	\$101,102,420	\$7,625,462	7.5%
City B	42,367,994	2,193,334	5.2%
City C	21,896,426	595,582	2.7%

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- (7) For every governmental body, Louisiana law places limits on the amount of General Obligation (G/O) Bonds, Sales Tax Bonds, Certificates of Indebtedness, Tax Anticipation Notes, etc. that can be sold; therefore, the relationship between current debt levels and the legal debt limit has important implications. Looking at the chart below, are any of cities' financial position at risk?

Tax Anticipation Notes	Current Debt Levels	Legal Debt Limits	Debt Ratio
City A	\$5,535,000	\$10,524,400	52.6%
City B	26,700,000	28,039,343	95.2%
City C	2,750,000	32,207,088	8.5%
City D	1,548,000	2,064,494	75.0%

- (8) Total Property Tax Revenues for a 6-year period is shown below. Looking at the chart below, is this an early warning sign that would put a governmental body's financial position at risk?

Fiscal Year	Taxable Value	Number of Mills to Levy	Anticipated Collections	Actual Collections	Collection Percentage
2001-02	\$102,332,070	65.96	\$9,819,785	\$9,610,753	97.9%
2002-03	149,502,930	67.16	10,040,617	10,014,003	99.7%
2003-04	147,397,130	67.86	10,002,369	9,892,922	98.9%
2004-05	157,270,410	71.21	11,199,226	11,038,367	98.6%
2005-06	169,173,980	71.36	12,072,255	11,796,148	97.7%
2006-07	177,789,060	71.60	12,729,697	12,622,274	99.2%

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- (9) Sales & Use Tax Revenues for a 5-year period is shown below. Collections grew significantly in FY 1994-95 and again in 1995-96 even though the Sales Tax Rate (2%) did not change. Looking at the chart below, is this an early warning sign that would put a governmental body's financial position at risk?

Sales Tax Collections	Fiscal Year Totals
1991-92	\$3,105,528
1992-93	3,277,856
1993-94	3,677,488
1994-95	4,798,004
1995-96	7,137,179

- (10) Taxable Valuations have decreased over the past 6 years while Homestead Valuations have increased. Looking at the chart below, is this an early warning sign that would put a governmental body's financial position at risk?

Fiscal Year	Taxable Valuation	Homestead Valuation	Total Valuation
2001-02	\$91,636,362	\$11,094,976	\$102,731,338
2002-03	91,260,526	11,433,909	102,694,435
2003-04	88,649,887	11,687,351	100,337,238
2004-05	85,060,632	11,837,322	96,897,954
2005-06	82,911,341	12,053,754	94,965,095
2006-07	79,879,073	12,141,177	92,020,250

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- (1) Current year operating deficit;
- (2) Two consecutive years of operating fund deficit;
- (3) Current year operating deficit that is larger than the previous year's deficit;
- (4) A General Fund deficit in the current position in the current year balance sheet;
- (5) A current General Fund deficit (two or more in the last five years);
- (6) A current General Fund Unreserved Fund Balance less than 5% of total revenues;
- (7) Debt outstanding greater than 90% of the tax limit;
- (8) Total property tax collections less than 90% of the total tax levy;
- (9) A trend of increasing tax collections during two consecutive years in a three-year trend;
- (10) Declining market valuations during two consecutive years in a three-year trend;

NOTE: Evaluating a jurisdiction's financial condition is difficult and no single indicator tells the whole story.