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# **Fiscal Health Analysis for Colorado Counties and Municipalities**

**October 2013**

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## *Glossary of Terms and Abbreviations*

**CLR** – Cash to Liabilities

**C.R.S.** – Colorado Revised Statutes

**DBR** – Debt Burden Ratio

**Department** – Colorado Department of Local Affairs (DOLA)

**DLG** – Department of Local Affairs, Division of Local Government

**EFNP** – Change in Enterprise Funds Net Position

**EPC** – Expenditures per Capita

**GFOA** – Government Finance Officers Association

**ICMA** – The International City/County Management Association

**OMR** – Operating Margin Ratio

**OSA** – Office of the State Auditor

**TRC** – Tax Revenue per Capita

**UFB** – Unrestricted Fund Balance

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# Fiscal Health Analysis for Counties and Municipalities

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## Overview

The Fiscal Health Analysis is a set of financial ratios that can be applied to county or municipality financial statements, developed by the Local Government Audit Division of the Office of the State Auditor (OSA). The OSA developed these ratios based on ratios used by major governmental finance organizations. Financial indicators within these ratios can provide information to assist the county or municipality in identifying areas to focus for further examination and, if needed, action by the appropriate parties.

## History

In the early 2000s, after two Colorado school districts experienced significant financial difficulties, we created a fiscal health analysis report that concentrated on the State's 178 school districts. In 2009, we issued the first annual report on the fiscal health of Colorado school districts using a 3-year period to evaluate trends. We conduct this analysis annually and examine the most current rolling 3-year period for which audited financial statements are available. Based on the success of this report, we assessed the need for a similar report to address the fiscal health specific to counties and municipalities.

In general, counties and municipalities operate autonomously and have the power to pass their own laws and secure their own funding sources in a variety of ways. Certain cities and towns can elect to become home rule under Sections 6 and 9 in Article XX of the Colorado Constitution. These sections give "the full right of self-government in both local and municipal matters" to the citizens. Certain counties can elect to become home rule under Section 16 in Article XIV of the Colorado Constitution. Many counties and municipalities have independently applied their own analysis to their fiscal health, or contracted for assistance with the analysis. This report provides basic information on conducting a fiscal health analysis, and can be used as a starting point for some counties and municipalities, and as an additional way for others, of evaluating fiscal health.

## **Other States' Fiscal Health Monitoring of Local Governments**

Other states throughout the country conduct a fiscal health analysis of their local governments. For example, Nevada, Florida, and Michigan score each of their local government's financial health in order to determine whether the local government is financially healthy, in stress, or in crisis. Governments that have strong financial monitoring practices demonstrate prudent financial management and are better able to detect fiscal stress before a crisis occurs.

State governments are in a unique position to provide technical assistance to cities and counties as they detect possible financial indicators. According to a report issued by the Pew Charitable Trusts in 2013, states should be working with local governments by providing technical advice to detect financial stress as early as possible.

## **Roles of the Department of Local Affairs and the OSA's Local Government Audit Division**

The Colorado Department of Local Affairs (DOLA) and the OSA's Local Government Audit Division provide different, yet complementary, roles in supporting counties and municipalities across Colorado. DOLA is responsible for providing technical assistance and information to local governments, while the OSA is responsible for ensuring that local governments comply with the Local Government Audit Law (Audit Law), as described below.

### **The OSA's Role**

The OSA ensures that Colorado's local governments, including counties and municipalities, provide current financial reports, as required by the Audit Law (Section 29-1-601, et seq., C.R.S.). The Audit Law requires local governments to contract with independent certified public accountants for annual audits of their financial statements. In addition, the Audit Law requires counties and municipalities to complete their financial statement audits within 6 months following their year-end and to submit their audit reports to the OSA within 30 days of completion. If a county or municipality cannot meet the submission deadline, it may file with the OSA for an extension of up to 60 days. If an entity does not submit its audit report by the statutory deadline, the OSA has the authority to direct the county treasurer to prohibit the release of all property taxes

collected on behalf of the entity until the entity submits financial statements deemed satisfactory by the OSA.

The Audit Law also allows local governments to file an application for exemption from audit when the local government's revenues or expenditures do not exceed \$500,000. Each local government must file the application with the OSA within 3 months of the close of the local government's year end. Local governments report financial information on the application including balance sheet and operating statement detail, as well as other information related to debt, capital assets, and budgets. The applications are subject to approval by the OSA.

Once the county or municipality submits its audit report or application for exemption from audit, the OSA reviews the report or application for deficiencies, contacts the auditor or the entity for further information (if needed), and prepares a letter to the county or municipality and, if applicable, its auditor if deficiencies are found. Several common deficiencies are noncompliance with statutory requirements, such as expenditures in excess of budget, or noncompliance with generally accepted accounting principles, such as missing required supplementary information.

## **DOLA's Role**

Within the Department of Local Affairs, the Division of Local Government (DLG) makes available long-term, high quality professional strategic services along with well-planned financial assistance to over 3,000 local governments. By providing this unique blend of services, DLG strives to strengthen Colorado's communities by supporting and bolstering Colorado's local governments and the continuum of good government from the ground up.

Division staff members partner with local, state, and federal resources to support communities at all times and have provided essential guidance during the recent financial downturn. Recent reductions in severance tax and federal mineral lease cash funds have had a significant negative impact on local governments' abilities to fund key capital improvements such as water and wastewater projects. In order to integrate the delivery of these technical, financial, and information services to local governments, DLG focuses on the following:

### **Financial Assistance:**

- Local governments can obtain grants and loans for capital improvements and for operations. Supported projects include, but are not limited to, water and wastewater improvements, road improvements, municipal and county facilities, and public libraries. DLG also administers several formula-based distributions.

**Professional Strategic Services:**

- **Technical Assistance:** DLG provides local government officials training and individual support, and professional assistance. Technical assistance includes, but is not limited to, conduct of local elections, land use planning, downtown revitalization, budgeting, community visioning, financial management, understanding statutory and constitutional limits on local government revenues, hands-on project development from conception to completion, and compliance with state statutes pertaining to local governments.
- **Regional Services:** Regional experts who live and work in the respective regions provide on-the-ground professional services and assistance related to the unique needs of the community. This staff is able to deliver more timely and relevant assistance to the local communities from their offices located in the region they serve. They also broker services and act as ombudsmen from DOLA and other agencies.
- **Disaster Recovery:** (In partnership with the Office of Emergency Management within the Department of Public Safety) In the event of a disaster, DLG's role, in partnership with OEM, is to assist local governments impacted by disaster. DLG's role in such recovery efforts includes working with the local government(s) to establish, open and staff a Disaster Assistance Center (DAC). Additional roles include consultation with the community and economic development assistance in rebuilding.

**State Demography Office:**

- This office creates, organizes and analyzes population and demographic information for the state. Its data are used by State agencies to forecast demand for facilities and services. Demographic data are also used by local governments and non-profit organizations in the state to anticipate growth or decline and to plan and develop programs and community resources. The office makes the data publicly available on DOLA's website, answers requests for economic and demographic data, and provides training workshops on accessing and using the data.

When DLG is working with a local government on their fiscal health, DLG can help answer such questions as:

“Where does our revenue come from and is it changing over time?”

“Are our expenditures consistent with our governing body's priorities?”

“Do we have adequate reserves?”

“Are our current expenditures sustainable over time given our revenues?”

“How do our financial benchmarks compare to our peers in the state?”



Local governments can easily tap into the many financial tools DLG provides. For example, DLG provides a general Budgeting 101 for new officials and staff at annual workshops held across the State. For more in-depth support, DLG provides local government budget/finance staff and elected officials with a general analysis of the financial condition of their general government activities. DLG's professional staff conduct an analysis including trends of revenues and expenditures, population, assessed value, reserves, assets and liabilities, distribution of revenues, and distribution of expenditures.

Other more in-depth analysis can include general government activities or specific enterprises such as water and sewer, using audited financial statements, adopted budgets and DLG's Financial Compendium data. DLG can evaluate trends of revenues and expenditures, number of customers served, reserves, debt and assets and liabilities. The training will help staff and elected officials compare local water and wastewater monthly rates to estimated average charges statewide and affordability thresholds. Training also evaluates whether revenues can be expected to remain stable and sufficient to pay costs of operation and of other available revenue options.

Most of the analysis is presented in easy-to-read charts and graphs and can be replicated by budgeting and finance staff for ongoing analysis. The training can be presented by DLG staff either in person or via webinar and may be useful before beginning the annual budget preparation and adoption process.

## **Development and Description of the Fiscal Health Analysis Report**

The OSA's Fiscal Health Analysis Report is composed of a set of financial ratios that counties and municipalities can use to assess their financial health. We first developed these financial health indicators by researching analyses conducted by other states and governmental organizations, such as the Government Finance Officers Association, (GFOA), and the International City/County Management Association, (ICMA). These ratios, when tracked over time, offer trend information that can warn of potential issues that merit further review in a particular county or municipality. This report uses a 3-year period to evaluate these trends.

The Fiscal Health Analysis Report focuses on the areas of highest risk for counties and municipalities. Accordingly, the ratios focus primarily on each entity's general and governmental funds, because these funds account for the majority of intergovernmental and local tax revenue received and expended for operations, basic services, and discretionary items. The analysis also focuses on entities' debt and considers any fund balance deficits. Lastly, the analysis looks at the change in net position over time of each entity's enterprise funds to try to

assess their health and stability. Appendix A provides a summary table that describes the ratios, calculations, benchmarks and financial indicators.

## Financial Ratios

The Fiscal Health Analysis Report consists of seven ratios to assess county and municipal financial health. The following is a description of each ratio, together with the associated financial indicator that, when triggered, could warrant further analysis when evaluated over a 3-year period. The ratios show relationships between different financial statement elements.

## Trend Analysis

The purpose of trend analysis is to identify governments whose ratios may indicate a warning trend over a multi-year period. When reviewing local government financial information, there are many factors to consider. First, any analysis should serve as a starting point for further discussion and inquiry. Ratio and trend analysis is one of the many available tools that could be used to analyze the fiscal health of governmental entities. The resulting numbers and each indicator require analysis to be informative. The ratios in this report should always be considered with other factors when drawing conclusions and making determinations. The management discussion and analysis included in county and municipal financial statements can provide a wealth of information that can help put the analysis into context. Often, general economic factors outside the control of a government can have a large impact on perceived fiscal health.

Appendix B provides sample financial statements with helpful examples to guide individual analysis. It should be noted that governments submitting an application for exemption from audit may not find enough information to complete the fiscal health analysis based on the application alone. In those cases, governments could examine the underlying accounting records such as the trial balance in order to find the figures necessary to complete the analysis.

The Fiscal Health Analysis ratios have some limitations when identifying financial stress within a county or municipality. First, the analysis does not highlight governments that show a financial indicator for only one or two of the three years included in the review. A second limitation of the Fiscal Health Analysis is that it does not take into consideration any current budgetary actions the government has taken that may affect its financial condition. For example, if a government has significantly cut expenditures in the current year, the changes would not be reflected in the data until the government's subsequent audited financial statements. Finally, the analysis looks only at historical data and does not consider a local government's financial condition at the current point in time.

In the following example ratio calculations, we have included sample financial information from a fictitious governmental entity. We show the data and calculation for each ratio and then provide the next 2 years of ratio calculations for illustrative purposes only.

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## **Ratio 1: Cash to Liabilities Ratio (CLR)**

### **What will this ratio tell me?**

This ratio encompasses the cash position of the entire entity, not including fiduciary funds or discretely presented component units. It shows how much cash a government has to pay for its current liabilities and provides a good indication as to whether the government has the ability to pay its bills in the short term.

### **What will a trend in this ratio tell me?**

A ratio that is trending downward indicates that a government has decreasing cash, increasing liabilities, or both. This could be due to a timing issue, meaning the government has incurred more liabilities at the end of the financial period, resulting in increased liabilities as of the balance sheet date. Alternatively, it could mean that the government has paid off more liabilities at the end of the year, decreasing the cash balance as of the balance sheet date.

**Example City**  
**Statement of Net Position (Assets Section)**  
**December 31, 20X1**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and Investments	\$18,296,221	\$28,382,640	\$46,678,861
Restricted Cash and Investments	3,748,663	0	3,748,663
Accounts Receivable	2,206,370	544,657	2,751,027

**Example City**  
**Statement of Net Position (Liabilities Section)**  
**December 31, 20X1**

	Governmental Activities	Business-Type Activities	Total
<b>LIABILITIES</b>			
Accounts Payable	\$ 1,025,858	\$ 477,699	\$ 1,503,557 <sup>A</sup>
Retainage Payable	38,998	38,685	77,683 <sup>A</sup>
Accrued Wages Payable	307,179	56,393	363,572 <sup>A</sup>
Accrued Liabilities	65,121	0	65,121 <sup>A</sup>
Accrued Interest Payable	136,619	40,741	177,360 <sup>A</sup>
Deposits and Escrows	816,291	35,500	851,791 <sup>A</sup>
Surety Bonds	245,449	0	245,449 <sup>A</sup>
			<i>Sum A:</i> \$6,517,427
Noncurrent Liabilities			
Due within one year	1,790,718	1,442,176	3,232,894 <sup>A</sup>
Due in more than one year	13,644,835	12,294,244	25,939,079

### How do I calculate the ratio?

To calculate this ratio, divide “Entity-wide unrestricted cash and investments” by the “Entity-wide current liabilities”. This example illustrates the calculation of the ratio for 1 year based on the sample financial data. Perform the ratio calculation for each year of a 3-year period and compare the resulting ratios to the benchmark noted on the next page to see if the government meets the benchmark.

#### CLR Formula:

$$\frac{\text{Entity-wide unrestricted cash and investments}}{\text{Entity-wide current liabilities}}$$

**Example calculation:**  $\frac{\$46,678,861}{\$6,517,427}$

Result: 7.16

### Where do I find the information?

The information for this ratio is located on the entity-wide statement of net position. Use only the amounts presented for the *primary government*. For the “Entity-wide unrestricted cash and investments” amount, use the cash and investments total if presented in a single line. If there are separate lines for cash and investments and other cash items that do not contain the word “restricted,” add those lines together. For the “Entity-wide current liabilities” amount, use the total for “current liabilities” or add current liability lines plus any noncurrent due within 1 year.

## What is the benchmark?

The numeric benchmark for this ratio is 1.0. When a government has a CLR of 1.0, it means that it has exactly enough cash available to pay off its current liabilities. A CLR of less than 1.0 means that the government does not have enough cash to pay off current liabilities.

## Financial indicator criteria:

- ✓ Continuous decline in CLR from year one to year three, with year three less than 1.0

**Or**

- ✓ CLR less than 1.0 all 3 years

This ratio has two different criteria. The ratio should not consistently decrease. A decreasing ratio may mean a government could be facing cash flow problems.

For analysis purposes, a government is below the benchmark when there are consistent decreases in the ratio with the last year less than **1.0** or all 3 years less than 1.0.

### Example City trend data

20X1: 7.16 (Result from above)

20X2: 5.37

20X3: 0.98

**Below benchmark?** Yes

## What questions should be considered if the government is below the benchmark?

- Does the government have trouble paying debts as they become due?
- Is the government incurring more liabilities?
- Are more liabilities coming due faster than cash is coming in to pay them?
- Is the government below the benchmark due to timing issues? For example, does the government have significant cash flows in the early part of the next year, after the balance sheet date?

- Is the government's cash flow structure sufficient to continue paying liabilities as they become due?
- 

## **Ratio 2: Unrestricted Fund Balance (UFB)**

### **What will this ratio tell me?**

The ratio indicates whether the local government's available fund balance is sufficient to withstand possible financial emergencies. Unrestricted fund balance consists of committed, assigned, and unassigned fund balance categories in the general fund. GFOA recommends that, at a minimum, the unrestricted fund balance be no less than 2 months of regular general fund expenditures.

The UFB is a ratio unique to the governmental environment. This ratio shows the relationship between available fund balance and expenditures. Specifically, this ratio shows the amount of fund balance a government has to cover future expenditures, without corresponding revenues. The ratio provides information based on the assumption that future expenditures will resemble past expenditures.

This ratio also provides insight into how long a government could operate if it were unable to collect any revenue. As mentioned above, GFOA recommends 2 months' reserves, but each government's environment is different and unique. Counties and municipalities should consider the specific environment when making a decision as to the sufficiency of unrestricted fund balance to cover future expenditures.

### **What will a trend in this ratio tell me?**

If the ratio decreases over time, it means the government either has increasing expenditures or has less fund balance available to pay expenditures. There are many reasons that a government might be decreasing its available fund balance, so even 3 years of consistent decline may not automatically mean there is a problem. The key to this ratio is that management is aware of the changes and they are intentional or planned.

**Example City  
Balance Sheet  
Governmental Funds  
December 31, 20X1**

	<u>General Fund</u>
<b>FUND BALANCE</b>	
Restricted for Emergencies	\$738,000
Assigned	0
Unassigned	7,454,468

**Example City  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Governmental Funds  
December 31, 20X1**

	<u>General Fund</u>
<b>EXPENDITURES</b>	
Total Expenditures	\$16,625,745 <sup>A</sup>
<b>OTHER FINANCING SOURCES (USES)</b>	
Transfers In	243,000 <sup>A</sup>
Transfers Out	(127,689) <sup>A</sup>

Net A:  
\$16,510,434

**How do I calculate the ratio?**

To calculate this ratio, divide general fund unrestricted fund balance by general fund total expenditures (net of transfers). This example illustrates the calculation of the ratio for 1 year based on the sample financial data. Perform the ratio calculation for each year of a 3-year period and compare the resulting ratios to the benchmark noted on the next page to see if the government meets the benchmark.

**UFB Formula:**

$$\frac{\text{General fund unrestricted fund balance}}{\text{General fund total expenditures (net of transfers)}}$$

**Example calculation:**

<u>\$7,454,468</u>
\$16,510,434

Result: 0.45

**Where do I find the information?**

The information for this ratio is located on the governmental funds balance sheet, specifically in the general fund. "General fund unrestricted fund balance" is the sum of unassigned, assigned, and committed fund balance. Restricted fund balance is not included in this calculation because the government cannot choose when to spend this money, and it is not available to the government to pay expenditures if necessary. For "General fund total expenditures (net of transfers)" use total expenditures for the general fund, and add transfers out and subtract transfers in, which reverses the transfers from the expenditure total.

## What is the benchmark?

Unrestricted fund balance no less than 2 months of regular general fund expenditures, or a ratio of 0.167.

## Financial Indicator Criteria:

- ✓ Continuous decline in UFB from year one to year three, with year three less than 0.167

**Or**

- ✓ UFB zero or less in year three

The UFB has two different criteria. First, GFOA recommends a UFB of 0.167, or the equivalent of 2 months of expenditures (2/12). A government with a UFB of 0.167 can pay for 2 months of expenditures in the event of total loss of revenue inflows. A government would be below the benchmark if it has consistent decreases in the ratio, with the most recent year less than 0.167. This means that either expenditures are increasing or fund balance is decreasing to the point where the government can no longer cover the recommended 2 months of expenditures. The second part of the criteria is whether a government has a negative UFB. A negative UFB would indicate negative reserves. Negative unrestricted fund balance means that a government does not have any available reserves as of the balance sheet date. This is not sustainable, and a government should address the situation as soon as possible.

For our analysis, a government is below the benchmark if it has consistent decreases in the ratio with the most current year's UFB less than 0.167.

### Example City trend data

20X1: 0.45 (Result from above)

20X2: 0.10

20X3: 0.07

**Below benchmark?** Yes

## What questions should be considered if the government is below the benchmark?

- Does being below the benchmark indicate that the government will have a problem paying its potential future expenditures?



- Does the government think that a 2-month reserve is appropriate?
  - Should the government consider a larger or smaller reserve benchmark?
  - Is the government in a pattern of decreasing expenditures and does it have the ability to pay 2 months of expenditures in the coming year based on current reserves and future expenditures?
  - Does the government understand the circumstances that led to a consistently decreasing UFB and was this planned?
  - Do consistent decreases in the ratio mean that expenditures are increasing, or unrestricted fund balance is decreasing, or both?
- 

## **Ratio 3: Debt Burden Ratio (DBR)**

### **What will this ratio tell me?**

The ratio indicates whether the local government's annual revenue will cover its annual debt payments, including principal and interest. The DBR is a very important way to assess a government's ability to continue to meet its debt service payments. This ratio shows the relationship between a government's revenue, or debt-paying capacity, and its required debt payment.

This ratio divides total governmental revenue of fund(s) paying debt by total governmental debt payments and provides an indication as to whether the government will have the ability to pay its future debt service. While this ratio focuses on governmental funds, it could also be appropriate to review enterprise fund debt service requirements and available revenues.

### **What will a trend in this ratio tell me?**

If the ratio shrinks every year, it might be a sign that the government's debt payment is becoming more burdensome, and concerning. This ratio can also provide insight into how a government is paying off its debt. In general, if a government pays its debt service with general fund revenue one year, but not the next year, the DBR will decrease significantly. This becomes important if a government has been paying its debt service with other revenue, not reported in the general fund, and then it begins to use general fund revenue. This could be a sign that the revenue stream the government intended to use to pay off its debt might not be sufficient.

### How do I calculate the ratio?

To calculate this ratio, divide the total governmental revenue of funds that pay debt service by the total governmental fund debt service payments, including principal and interest. This example illustrates the calculation of the ratio for 1 year based on the sample financial data. Perform the ratio calculation for each year of a 3-year period and compare the resulting ratios to the benchmark noted on the next page to see if the government meets the benchmark.

Example City Statement of Revenues, Expenditures, and Changes in Fund Balance Governmental Funds December 31, 20X1		
	<u>General Fund</u>	<u>Debt Service</u>
<b>REVENUES</b>		
Total Revenues	\$17,102,040 <sup>A</sup>	1,937,716 <sup>A</sup>
<b>EXPENDITURES</b>		
Debt Service - Principal	0	2,815,867 <sup>B</sup>
Debt Service - Interest	0	898,235 <sup>B</sup>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers In	243,000	127,689
Transfers Out	(127,689)	0

Sum A:  
\$19,039,756

Sum B:  
\$3,714,102

**DBR Formula:**

$$\frac{\text{Total governmental revenue of fund(s) paying debt}}{\text{Total governmental debt payments}}$$

**Example calculation:**

$$\frac{\$19,039,756}{\$3,714,102}$$

Result: 5.13

### Where do I find the information?

To find this number, add all the revenue from any governmental fund with debt service expenditures. Then, examine transfers into any funds paying debt service, and add the revenue from the fund that is the source of the transfer into that fund. Total governmental debt payments are the sum of all debt service payments reported in all governmental funds. Additionally, this information could be located in a few different places within the audit report. Aside from the Statement of Revenues, Expenditures, and Changes in Fund Balance, the information could be in the long-term debt note or in a schedule of long-term debt. Sometimes it is necessary to dig deeper into the financial statements by examining the combining statements to determine specifically which non-major fund made debt service payments or transferred money into a fund that paid debt service.

## What is the benchmark?

A DBR of 1 would indicate that debt service equals the annual revenue of the fund supporting the debt.

## Financial Indicator Criteria:

- ✓ Continuous decline in DBR from year one to year three
- And**
- ✓ Year 3 less than 1.0

This ratio has a two-part criteria and both must apply. The first part of the criteria is that the ratio should remain constant or increase. When the ratio is consistently less than 1.0, it means that the government does not have the appropriate amount of revenue in funds making debt service payments. The second part of the criteria is whether the ratio is less than 1.0 in the third year. A government with a DBR of 1.0 has just enough revenue in its funds with debt service expenditures to pay those debt service expenditures. A DBR of less than 1.0 means that a government does not have enough revenue in its funds paying debt service to cover those debt service expenditures and it must use fund balance to make up the difference.

In our analysis, a government is below the benchmark when it has a consistently decreasing DBR with the most recent year's ratio being less than 1.0.

### Example City trend data

20X1: 5.13 (Result from above)  
20X2: 3.25  
20X3: 0.95

**Below benchmark? Yes**

## What questions should be considered if the government is below the benchmark?

- Does this ratio indicate that the government does not have the ability to pay its future debt service expenditures?
- Is the ratio consistently decreasing because the government has declining revenue available to make consistent debt service payments?

- Does the government have plans to change the situation that could be causing the consistently decreasing DBR ratio?

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## **Ratio 4: Tax Revenue per Capita (TRC)**

### **What will this ratio tell me?**

First, it shows the expected relationship between population growth and tax revenue growth. Second, the ratio indicates the extent to which tax revenue in governmental funds changes with population.

### **What will a trend in this ratio tell me?**

This ratio provides a few insights into a government's tax and population relationship. If this ratio is consistently decreasing, it means that a government's population could be growing faster than its tax base. This means that the county or municipality should determine if there are other revenue sources to consider to provide funding for programs that have to serve a growing number of citizens.

**Example City**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**December 31, 20X1**

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Debt Service</u>
<b>REVENUES</b>			
Tax Revenue	\$11,053,188	4,250,032	1,767,105

**Example City**

**Population:**

20X1:	104,780
20X2:	105,263
20X3:	107,058

### How do I calculate the ratio?

To calculate this ratio, divide total governmental funds tax revenue by population. This example illustrates the calculation of the ratio for 1 year based on the sample financial data. Perform the ratio calculation for each year of a 3-year period and compare the resulting ratios to the benchmark noted on the next page to see if the government meets the benchmark.

### Where do I find the information?

The information for this ratio can be found on the statement of revenues, expenditures, and changes in fund balance. For “Total governmental fund tax revenue” use the sum of all tax revenue, including property, sales, and others, for total governmental funds tax revenue. For the purpose of calculating this ratio, we used the population information published on DOLA’s website. We realize that there are many sources of population estimates, but we recommend using one consistent source for that information for analysis.

**TRC Formula:**

$$\frac{\text{Total governmental funds tax revenue}}{\text{Population}}$$

**Example calculation:**  $\frac{\$11,053,188 + 4,250,032 + 1,767,105}{104,780}$

Result: 162.92

## What is the benchmark?

The benchmark should be a steady or increasing number, irrespective of what the number actually is. This is because there is no set amount of revenue a government should generate per capita; each individual government should make this determination for itself.

## Financial Indicator Criteria:

- ✓ Continuous decline in TRC from year one to year three

In our analysis, a government is below the benchmark if it has a consistently decreasing TRC.

### Example City trend data

20X1: 162.92 (Result from above)  
20X2: 149.01  
20X3: 135.44

**Below benchmark?** Yes

## What questions should be considered if the government is below the benchmark?

- Do declines in this ratio indicate that the government is generating too little revenue per citizen for services provided?
- Should the government consider other revenue sources to ensure that citizens continue to receive the same level of government services?

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## Ratio 5: Expenditures per Capita (EPC)

### What will this ratio tell me?

The ratio indicates changes in the local government's annual general fund expenditures in comparison to changes in population. This ratio divides total general fund expenditures by the population to show the amount of general

expenditures per citizen, which provides an indication as to how much the government is spending on services.

**What will a trend in this ratio tell me?**

The EPC specifically shows the relationship between a government's general fund expenditures and population. The expected relationship is that when population increases, expenditures increase at a constant rate. However, if expenditures grow faster than population, the government should look at the cause and determine if this is a problem.

**Example City**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**December 31, 20X1**

	<u>General Fund</u>
<b>EXPENDITURES</b>	
Total Expenditures	\$16,625,745
<b>OTHER FINANCING SOURCES (USES)</b>	
Transfers In	243,000
Transfers Out	(127,689)

**Example City**

**Population:**

20X1:	104,780
20X2:	105,263
20X3:	107,058

**How do I calculate the ratio?**

To calculate this ratio, divide total governmental fund expenditures, net of transfers, by population. This example illustrates the calculation of the ratio for 1 year based on the sample financial data. Perform the ratio calculation for each year of a 3-year period and compare the resulting ratios to the benchmark noted on the next page to see if the government meets the benchmark.

**EPC Formula:**

$$\frac{\text{General fund expenditures (net of transfers)}}{\text{Population}}$$

**Example calculation:**  $\frac{\$16,625,745 + (127,689 - 243,000)}{104,780}$

Result: 157.57

**Where do I find the information?**

The information for this ratio can be found on the statement of revenues, expenditures and changes in fund balance. For “General fund total expenditures (net of transfers)” use total expenditures for the general fund, and add transfers out and subtract transfers in, which reverses the transfers from the expenditure total. Population data can be found on DOLA’s website.



## What is the benchmark?

The benchmark should be a steady or declining number, irrespective of what the number actually is. This is because there is no set amount of expenditures a government should generate per capita; each individual government should make this determination for itself.

## Financial Indicator Criteria:

- ✓ Continuous increase in EPC from year one to year three

This financial indicator is triggered when the trend is above the benchmark. In our analysis, a government is above the benchmark if it has a consistently increasing EPC.

### Example City trend data

20X1: 157.57 (Result from above)  
20X2: 160.29  
20X3: 162.47

**Above benchmark?** Yes

## What questions should be considered if the government is above the benchmark?

- Do the changes in this ratio indicate that the government is spending too much per citizen?
- Should the government consider decreasing expenditures?
- Was the increase in the EPC due to planned spending? If so, what was the spending for and how will the budget address it going forward?

## **Ratio 6: Operating Margin Ratio (OMR)**

### **What will this ratio tell me?**

The OMR is another traditional financial performance indicator that private and public entities use for analysis. The OMR looks at revenues and expenditures in the general fund. The ratio indicates the amount added to the local government's reserves for every \$1 generated in revenue.

In general, a government that has sustainable operations will have more operating revenue than expenditures at any given time. There are numerous reasons why a government would have more expenditures than revenues for a given year, but if the government continually has more expenditures than revenue, it might be financing its expenditures with long-term debt, which is not a sustainable operational model. Counties and municipalities should be careful and examine other factors before judging sustainability or fiscal health based on this ratio alone. Many factors contribute to a government's operating margin. For example, many governments have a long-term focus, which might lead to operating losses in current and short-term years due to planned one-time expenditures.

### **What will a trend in this ratio tell me?**

First, this ratio will tend to change consistently over time. It is possible that a government will have a negative OMR one year if there are one time capital expenditures, and a positive OMR the next. However, if a government has a consistently negative OMR, it could indicate structural problems in the government's operating decisions, or generally poor economic conditions. A consistent decrease in the OMR, or an OMR consistently less than 1.0, is not sustainable in the long term because eventually a government will run out of fund balance to cover the difference.

### How do I calculate the ratio?

To calculate this ratio, subtract total general fund expenditures, net of transfers, from general fund total revenue. Divide that result by general fund total revenue. This example illustrates the calculation of the ratio for 1 year based on the sample financial data. Perform the ratio calculation for each year of a 3-year period and compare the resulting ratios to the benchmark noted on the next page to see if the government meets the benchmark.

**Example City**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**December 31, 20X1**

	<u>General Fund</u>
<b>REVENUES</b>	
Total Revenues	\$17,102,040
<b>EXPENDITRES</b>	
Total Expenditures	16,625,745 <sup>A</sup>
<b>OTHER FINANCING SOURCES (USES)</b>	
Transfers In	243,000 <sup>A</sup>
Transfers Out	(127,689) <sup>A</sup>
	<i>Net A</i> \$16,510,434

### Where do I find the information?

The information for this ratio is located on the statement of revenues, expenditures, and changes in fund balance. For “General fund total revenue” use the total revenues for the general fund. For “General fund total expenditures (net of transfers)” use total expenditures for the general fund, and add transfers out and subtract transfers in, which reverses the transfers from the expenditure total.

**OMR Formula:**

$$\frac{\text{General fund total revenue} - (\text{general fund total expenditures, net of transfers})}{\text{General fund total revenue}}$$

**Example calculation:**

$$\frac{\$17,102,040 - (16,510,434)}{17,102,040}$$

Result: 0.03

### **What is the benchmark?**

An OMR of 0.01 would indicate that \$.01 would result in net income for every \$1 produced in gross revenue.

The benchmark for the OMR is zero. AN OMR of zero means that a government has equal revenue and expenditures. An OMR greater than zero is positive and indicates that the government has more revenue than expenditures. An OMR of less than zero means that a government has more expenditures than revenues.

### **Financial Indicator Criteria:**

- ✓ Decrease in OMR from year one to year three, with year three less than zero
- Or**
- ✓ OMR less than zero for years one, two and three

In our analysis, a government is below the benchmark if it has a consistently decreasing OMR with the most recent year less than **zero**, or a negative OMR for all 3 years under analysis.

#### **Example City trend data**

20X1: 0.03 (Result from above)  
20X2: 0.01  
20X3: -0.07

**Below benchmark? Yes**

### **What questions should be considered if the government is below the benchmark?**

- Does this ratio indicate that the government is spending too much money?
- Does the decrease in OMR indicate planned reductions in fund balance?
- Are there one-time capital expenditures that led to the decrease in OMR?

- What is causing the OMR to be consistently less than zero?
  - Is the consistent decrease due to a timing issue?
- 

## **Ratio 7: Enterprise Funds Net Position (EFNP)**

### **What will this ratio tell me?**

The ratio indicates whether the local government's net position in its enterprise funds are increasing or decreasing. This ratio could show that a government needs to adjust its revenue and expense structure in order to remain solvent over time. This ratio divides the current year net position by the prior year net position. This ratio reviews for a declining net position and highlights when an entity's enterprise net position has reached the lowest point in 4 years.

The EFNP is the one ratio in this report that specifically focuses on a government's enterprise funds. This ratio shows the change in a government's enterprise fund balance, as a whole, over time. The EFNP goes beyond a traditional operating margin analysis and encompasses all sources and uses of resources for the enterprise funds. This ratio could be reviewed for each enterprise fund individually, or for the total of all enterprise funds.

### **What will a trend in this ratio tell me?**

An enterprise that is not sustainable, without structural changes, will have a consistently decreasing EFNP over time, eventually falling below zero.

A county or municipality should ascertain why enterprise fund balance has declined or become negative and should determine how to return the enterprise activity to operating sustainability.

### How do I calculate the ratio?

To calculate this ratio, divide the current year enterprise fund net position by the prior year net position. This example illustrates the calculation of the ratio for 1 year based on the sample financial data. Perform the ratio calculation for each year of a 3-year period and compare the resulting ratios to the benchmark noted on the next page to see if the government meets the benchmark.

Example City Statement of Revenues, Expenses, and Changes in Net Position Proprietary Funds December 31, 20X1	
	<u>Water, Sewer and Drainage Fund</u>
<b>CHANGE IN NET POSITION</b>	
Change in Net Position	\$15,380,311
Net position, beginning	60,446,647
Net position, ending	75,826,958

**Formula:**

$$\frac{\text{Current year net position of the enterprise fund}}{\text{Prior year net position of the enterprise fund}}$$

**Example calculation:**

	\$75,826,958
	60,446,647

Result: 1.25

### Where do I find the information?

The information for this ratio is located on the proprietary statement of revenues, expenditures, and changes in net position. The “Current year net position of the enterprise fund” is generally the last line. “Prior year net position of the enterprise fund” is located on the same statement, generally just above the current year value.

## What is the benchmark?

The benchmark for evaluating the EFNP is not a specific numerical value; rather, it is that the EFNP remains consistent or increases over time.

### Financial Indicator Criteria

- ✓ Continuous decrease in EFNP from year one to year three, with year three net position less than zero

**Or**

- ✓ Negative net position all 3 years

EFNP is similar to OMR in that a consistently negative EFNP is not a sustainable operating model. Eventually, remaining net position will run out to cover the deficiency.

For our purposes, the government is below the benchmark if it has consistent decreases in the ratio with the most recent year less than **zero**, or a ratio of less than zero for all 3 years under analysis.

#### Example City trend data

20X1: 1.25 (Result from above)

20X2: 0.65

20X3: -0.10

**Below benchmark? Yes**

## What questions should be considered if the government is below the benchmark?

- Do changes in this ratio indicate that the government is spending too much?
- What plans does the government have to reverse this trend?
- Should the government maintain more or less reserves?

## Conclusion

This report is available to help evaluate the fiscal health of counties and municipalities. Entities across the public and private economic environments use information like this to assess their fiscal health. It is extremely important that local governments across Colorado use this information or other fiscal health analyses, to evaluate and maintain their fiscal health.

The OSA plans to incorporate the ratios included in this report when performing future reviews of audits and applications for exemption from audit. Included in the review process, the OSA will use the financial information taken directly from the audited financial statements or exemptions from audit in order to assess the financial ratios. If the OSA is sending a letter of deficiency to the government, the OSA will also provide the fiscal health information to local government officials, as a courtesy, when a government is below a benchmark. No response to this information is required and each local government can use the information at its own discretion.

As mentioned earlier, the ratios may be used as a starting point for discussions. The results may point to areas where government officials can ask additional questions to gain a full understanding of a local government's finances. Transparency and understanding of the government's financial picture helps to ensure that decisions reflect the values and priorities of the community.

## More Information

More information about governmental financial performance indicators and fiscal health analyses may be found in the following:

Government Finance Officers Association, "The 10-Point Test of Financial Condition: Toward an Easy-to-Use Assessment Tool for Smaller Cities," 1993, <<http://gfoa.org/services/dfl/bulletin/BUDGET-Ten-point-test.pdf>>.

International City/County Management Association, "Evaluating Financial Condition: A Handbook for Local Government, rev. 4th ed., 2003, <[http://bookstore.icma.org/Evaluating\\_Financial\\_Condition\\_P981.cfm?UserID=886085&jsessionid=4e309328080eb1a681b3](http://bookstore.icma.org/Evaluating_Financial_Condition_P981.cfm?UserID=886085&jsessionid=4e309328080eb1a681b3)>.



The Pew Charitable Trusts, “The State Role in Local Government Financial Distress,” 2013, <<http://www.pewstates.org/research/reports/the-state-role-in-local-government-financial-distress-85899492075>>.

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# Appendix A

Appendix A  
 Fiscal Health Analysis for Colorado Counties and Municipalities  
 Understanding the Fiscal Health Ratios and Indicators

The following table provides a description of the ratios, calculations, benchmarks, and financial indicators:

	<b><u>Ratio</u></b>	<b><u>Calculations</u></b>
1	Cash to Liabilities Ratio (CLR)	$\frac{\text{Entity-wide unrestricted cash and investments}}{\text{Entity-wide current liabilities}}$
2	Unrestricted Fund Balance Ratio (UFB)	$\frac{\text{General Fund unrestricted fund balance}}{\text{Total general fund total expenditures (net of transfers)}}$
3	Debt Burden Ratio (DBR)	$\frac{\text{Total governmental revenue of fund(s) paying debt}}{\text{Total governmental debt payments}}$
4	Tax Revenue Per Capita (TRC)	$\frac{\text{Total governmental funds tax revenue}}{\text{Population}}$
5	Expenditures Per Capita (EPC)	$\frac{\text{General fund expenditures (net of transfers)}}{\text{Population}}$
6	Operating Margin Ratio (OMR)	$\frac{\text{General fund total revenue} - (\text{general fund total expenditures, net of transfers})}{\text{General fund total revenue}}$
7	Enterprise Funds Net Position (EFNP)	$\frac{\text{Current year net position of the enterprise fund}}{\text{Prior year net position of the enterprise fund}}$

	<u>Description</u>	<u>Benchmark</u>	<u>Financial Indicators</u>
1	Encompasses the cash position of the entire entity, not including fiduciary funds or discretely presented component units.	CLR of 1.0 means there is exactly enough cash to pay off current liabilities.	Continuous decline in CLR from year one to year three, with year three less than 1.0, <b>or</b> CLR less than 1.0 all 3 years
2	Indicates whether the local government's available fund balance is sufficient to withstand possible financial emergencies.	Unrestricted fund balance no less than 2 months of regular general fund expenditures, or a ratio of 0.167.	Continuous decline in UFB from year one to year three, with year three <0.167, <b>or</b> UFB zero or less in year three
3	Indicates whether the local government's annual revenue will cover its annual debt payments, including principal and interest.	A DBR of 1 would indicate that debt service equals the annual revenue of the fund supporting the debt	Continuous decline in DBR from year one to year three, <b>and</b> year 3 <1.0
4	Indicates the extent to which tax revenues in governmental funds changes with population.	Steady or increasing number, irrespective of what the number actually is.	Continuous decline in TRC from year one to year three
5	Indicates changes in the local government's annual general fund expenditures in comparison to changes in population.	Steady or declining number, irrespective of what the number actually is.	Continuous increase in EPC from year one to year three
6	Indicates the amount added to reserves for every \$1 in total general fund gross revenue.	An OMR of 0.01 would indicate that \$.01 would result in net income for every \$1 produced in gross revenue.	Decrease in OMR from year one to year three, with year three < zero, <b>or</b> OMR < zero for years one, two and three
7	Indicates whether the local government's net position in its enterprise funds are increasing or decreasing.	The EFNP is not a specific numerical value; rather, the EFNP should remain consistent or increase over time.	Continuous decrease in EFNP from year one to year three, with year three net position < zero, <b>or</b> negative net position in all 3 years.

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# **Appendix B**

The following pages provide examples of a local government's financial statements for illustration purposes only. These are not intended to represent a full set of financial statements, but instead provide examples of the key statements used in this fiscal health analysis report.

**Example City**  
**Statement of Net Position**  
**December 31, 20XX**

	Primary Government		Total
	Governmental Activities	Business-type Activities	
<b>Assets</b>			
Cash and Investments	\$ 18,296,221 <sup>a</sup>	\$ 28,382,640 <sup>a</sup>	\$ 46,678,861
Restricted Cash and Investments	3,748,663	-	3,748,663
Accounts receivable	2,206,370	544,657	2,751,027
Property taxes receivable	1,455,145	-	1,455,145
Interest receivable	47,441	145,755	193,196
Inventories	38,053	-	38,053
Prepaid expenses	188,119	4,635	192,754
Due to due from	-	3,600,000	3,600,000
Debt Issuance Costs, net	56,312	152,090	208,402
Capital Assets:			
Buildings,			
net of accumulated depreciation	32,955,891	57,382,619	90,338,510
Total assets	58,992,215	90,212,396	149,204,611
<b>Liabilities</b>			
Accounts payable	1,025,858	477,699	1,503,557
Retainage payable	38,998	38,685	77,683
Accrued wages payable	307,179	56,393	363,572
Accrued liabilities	65,121	-	65,121
Accrued interest payable	136,619	40,741	177,360
Deposits and escrows	816,291	35,500	851,791
Surety bonds	245,449	-	245,449
<b>Noncurrent Liabilities</b>			
Due within One Year	1,790,718	1,442,176	3,232,894
Due in more than one year	13,644,835	12,294,244	25,939,079
Total Liabilities	18,071,068	14,385,438	32,456,506
<b>Deferred inflow of resources:</b>			
Revenue not yet available	1,479,145	-	1,479,145
<b>Net Position:</b>			
Invested in Capital Assets	18,187,203	43,867,598	62,054,801
Restricted for:			
Emergencies	738,000	-	738,000
Debt service	3,333,182	-	3,333,182
Unrestricted	17,183,617	31,959,360	49,142,977
Total Net Position	\$ 39,442,002	\$ 75,826,958	\$ 115,268,960

Ratio 1: CLR  
Sum of a = Entity-wide  
unrestricted cash and  
investments

Ratio 1: CLR  
Sum of b = Entity-  
wide current  
liabilities



**Example City  
Balance Sheet  
Governmental Funds  
December 31, 20XX**

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Cash and Investments	\$ 8,273,663	\$ 5,013,197	\$ 5,009,361	\$ 18,296,221
Restricted Cash and Investments	-	3,748,663	-	3,748,663
Accounts receivable	1,228,989	707,269	270,112	2,206,370
Property taxes receivable	1,455,145	-	-	1,455,145
Interest receivable	13,223	20,587	13,631	47,441
Inventories	38,053	-	-	38,053
Prepaid expenses	188,119	-	-	188,119
	<u>11,197,192</u>	<u>9,489,716</u>	<u>5,293,104</u>	<u>25,980,012</u>
<b>Total Assets</b>	<b>\$ 11,197,192</b>	<b>\$ 9,489,716</b>	<b>\$ 5,293,104</b>	<b>\$ 25,980,012</b>
<b>Liabilities</b>				
Accounts payable	\$ 523,130	\$ 231,855	\$ 270,873	\$ 1,025,858
Retainage payable	-	38,998	-	38,998
Accrued wages payable	301,612	-	5,567	307,179
Accrued liabilities	65,121	-	-	65,121
Accrued interest payable	-	-	136,619	136,619
Deposits and escrows	188,095	435,236	192,960	816,291
Surety bonds	245,449	-	-	245,449
	<u>1,323,407</u>	<u>706,089</u>	<u>606,019</u>	<u>2,635,515</u>
<b>Total Liabilities</b>	<b>1,323,407</b>	<b>706,089</b>	<b>606,019</b>	<b>2,635,515</b>
<b>Deferred inflow of resources:</b>				
Revenue not yet available	<u>1,455,145</u>	<u>-</u>	<u>101,485</u>	<u>1,556,630</u>
<b>Fund balance:</b>				
Nonspendable	226,172	-	-	226,172
Restricted for:				
Emergencies	738,000	-	-	738,000
Assigned	8,783,627	4,585,600	13,369,227	13,369,227
Unassigned	7,454,468 <sup>a</sup>	-	-	7,454,468
	<u>8,418,640</u>	<u>8,783,627</u>	<u>4,585,600</u>	<u>21,787,867</u>
<b>Total fund balances</b>	<b>8,418,640</b>	<b>8,783,627</b>	<b>4,585,600</b>	<b>21,787,867</b>
<b>Total liabilities, deferred inflows and fund balances</b>	<b>\$ 11,197,192</b>	<b>\$ 9,489,716</b>	<b>\$ 5,293,104</b>	<b>\$ 25,980,012</b>

Ratio 2: UFB  
a = unrestricted  
fund balance

7,454,468<sup>a</sup>

**Example City**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Governmental Funds**  
**December 31, 20XX**

	General Fund	Capital Projects	Debt Service Fund	Total Governmental Funds
<b>Revenues</b>				
Taxes	\$ 11,053,188 <sup>d</sup>	\$ 4,250,032 <sup>d</sup>	\$ 1,767,105 <sup>d</sup>	\$ 17,070,325
Licenses and permits	1,131,046	-	-	1,131,046
Intergovernmental	3,059,358	125,248	60,541	3,245,147
Charges for Services	1,238,811	-	-	1,238,811
Fines and forfeitures	427,848	-	-	427,848
Rental income	2,905	-	-	2,905
Investment income	83,925	76,797	99,025	259,747
Miscellaneous	104,959	14,433	11,045	130,437
<b>Total Revenues</b>	<b>17,102,040<sup>b,e</sup></b>	4,466,510	<b>1,937,716<sup>b</sup></b>	23,506,266
<b>Expenditures</b>				
Current expenditures:				
General government	6,010,769	384,418	-	6,395,187
Public safety	4,001,780	253,383	-	4,255,163
Public works	1,379,026	5,186,108	-	6,565,134
Recreation center	1,027,564	26,786	-	1,054,350
Community development	4,206,606	83,665	-	4,290,271
Debt service				
Principal	-	-	2,815,867 <sup>c</sup>	2,815,867
Interest	-	-	898,235 <sup>c</sup>	898,235
Capital outlay	-	-	-	-
<b>Total Expenditures</b>	<b>16,625,745<sup>a</sup></b>	5,934,360	3,714,102	26,274,207
Excess of Revenues over (under) expenditures	476,295	(1,467,850)	(1,776,386)	(2,767,941)
<b>Other Financing Sources (Uses)</b>				
Transfers In	243,000 <sup>a</sup>	-	127,689	370,689
Transfers Out	(127,689) <sup>a</sup>	(243,000)	-	(370,689)
Capital Lease	-	4,500,000	-	4,500,000
<b>Total other financing sources (uses)</b>	<b>115,311</b>	4,257,000	127,689	4,500,000
<b>Net Change in Fund Balance</b>	<b>591,606</b>	2,789,150	(1,648,697)	1,732,059
Fund Balances, beginning	7,827,034	5,994,477	6,234,297	20,055,808
<b>Fund Balances, ending</b>	<b>\$ 8,418,640</b>	<b>\$ 8,783,627</b>	<b>\$ 4,585,600</b>	<b>\$ 21,787,867</b>

<sup>2</sup>Ratio 4: TRC  
Sum of d = Total governmental fund tax revenue

<sup>1</sup>Ratio 3: DBR  
Sum of b = Total revenue of funds paying debt service

Ratio 6: OMR  
e = General fund total revenue

Ratio 3: DBR  
Sum of c = Total governmental debt service payments

Ratio 2: UFB  
<sup>2</sup>Ratio 5: EPC  
Ratio 6: OMR  
Sum of a = General fund total exp (net of transfers)

<sup>1</sup> Ratio 3: DBR revenue paying debt service should add total revenue from any governmental fund with debt service expenditures, including the total revenue from any fund with a transfer out to a fund paying debt service. In our report example, General Fund revenue is included because the General Fund made a transfer to cover expenditures of the Debt Service Fund which has principal and interest payments.

<sup>2</sup> Ratio 4: TRC and Ratio 5: EPC use population in the calculation. This information can be found through the U.S. Census Bureau or on the Department of Local Affairs website.

**Example City  
Proprietary Funds  
Statement of Revenues, Expenses, and Changes in Net Position  
December 31, 20XX**

	<u>Water, Sewer and Drainage Fund</u>
<b>Operating revenues</b>	
Charges for Services	\$ 8,941,705
Miscellaneous	<u>85,021</u>
Total operating revenues	<u>9,026,726</u>
<b>Operating expenses</b>	
Operations	2,753,073
Administration	1,661,387
Depreciation	<u>2,639,368</u>
Total operating expenses	<u>7,053,828</u>
Operating Income	<u>1,972,898</u>
<b>Nonoperating revenues (expenses)</b>	
Investment income	332,135
Interest expense	(558,364)
Loss on disposal of capital assets	<u>(1,261)</u>
Total nonoperating revenues (expenses)	<u>(227,490)</u>
Income before contributions	<u>1,745,408</u>
<b>Capital contributions</b>	
Tap fees	74,148
Plant investment fees	7,529,388
Developer contributions	<u>6,031,367</u>
Change in net position	15,380,311
Net position, beginning	<u>60,446,647</u> <sup>a</sup>
Net position, ending	<u>\$ 75,826,958</u> <sup>b</sup>

Ratio 7: CEFNP  
a = Prior year net position

Ratio 7: CEFNP  
b = Current year net position

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