

OHIO AUDITOR OF STATE FHI USER'S GUIDE



Leaders of Ohio's counties and cities have great responsibility for managing the financial affairs of their governments even though they do not control key factors that drive their budgets.

In January 2017, Auditor of State Dave Yost released the **Financial Health Indicators** — a series of indexes that show how much fiscal stress a city or county is under — and updated the indicators with additional functionality in December 2017.

» UNDERSTANDING THE FHI

Each indicator (up to 17) shows whether a particular measure has a critical, cautionary or positive outlook, with the status designated by a color: red, yellow or green.

The more red and yellow indicators, the greater the stress on the entity's financial health.

» HOW MANY ARE TOO MANY?

Historically, entities in fiscal distress (fiscal caution, watch or emergency) had at least six indicators with "critical outlook" or colored red. Those with a combination of at least eight "critical" and "cautionary" outlooks were two to three years from experiencing fiscal stress.

» WHAT THE FHI MEASURE

Each indicator is a reflection of different financial information. The indicators sometimes can be challenging because multiple data points are typically needed to illustrate what the indicator is measuring. For ease of understanding each indicator, it is best to begin by reading the description of the indicator and why it is important. Before analyzing the graphic, it is helpful to read the requirements of the "critical outlook" and "cautionary outlook" to understand what is being reflected in each indicator.

No single indicator should be interpreted to signal overall fiscal distress. The FHI should be considered as a group to determine an entity's fiscal health. A single indicator can point to a trend or issue in a certain fiscal measurement, but an indicator could have been triggered to a critical outlook because officials decided, for example, to pay down debt and significantly reduce a fund balance. While a declining fund balance isn't usually positive, paying off debt is a sound financial reason to do so.

» FHI FREQUENCY

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 submits its annual filing of its financial statements with the AOS. The preliminary report is based on the current year's unaudited financial statement 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 the reporting year.

» PRELIMINARY vs. FINAL

It is important to note that an entity's FHI may change between the initial filing and after the audit is completed. All entities must file their financial data by the end of May (specific date varies by year, and financial basis of reporting).

» THE INDICATORS

Each indicator is explained in full detail at www.ohioauditor.gov/fhi. In short:

● Nos. 1 & 3

Identify when an entity has a zero, negative or declining balance in governmental type activities assets that are unrestricted. This applies to the balance at the end of a reporting year as well as a declining trend over multiple years. These are signs of fiscal stress because balances may not be available for unexpected expenses.

● Nos. 2 & 4

Identify when an entity has a zero, negative or declining unassigned General Fund balance at the end of the reporting year and/or a declining trend over multiple years. These are signs of fiscal stress because balances may not be available for unexpected expenses.

● No. 5

Identifies reserves available in the General Fund.

● No. 6

Reflects the percentage change from year to year for property tax revenue in the General Fund.

● No. 7

Reflects the percentage change from year to year for sales tax revenue for counties and income tax revenue for cities in the General Fund.

● No. 8

Provides an indication of operating deficits and the size of the operating deficit compared to the current year budget.

● No. 9

Determines if, on a government-wide basis, expenses are exceeding revenues.

● No. 10

Reflects reliance on intergovernmental revenues which are subject to state and federal budget cuts.

● No. 11

Identifies 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.

● No. 12

Identifies the percentage of the revenues used/needed for repayment of debt.

● Nos. 13-15

Represents how long balances could sustain the entity based on average daily expenses.

● No. 16

Is the ratio of total liabilities of governmental type activities 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.

● No. 17

Identifies if an entity's recent audit reports include budgetary non-compliance and/or unreconciled/unauditable financial records.

» MORE INFORMATION

Go to www.ohioauditor.gov/fhi for more, including a report on each of Ohio's 88 counties and 247 cities, as well as heat maps showing overall trends across Ohio and to use new tools to analyze city and county financial data.