

# The *Performer*: Measuring A Government's Financial Health and Success



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# Financial Statement Users

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- **CITIZENS/PUBLIC** - To assist them in making election decisions on taxes, bonds and their representatives
- **MANAGEMENT & GOVERNING BODY** - To assist them in making budgeting and financial management decisions and in meeting their stewardship responsibilities
- **OVERSIGHT AGENCIES** - To assist them in making decisions on awards and monitoring compliance
- **BONDHOLDERS/CREDITORS** - To assist them in making loaning, purchasing and/or selling decisions



# Financial Reporting

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- The Past
  - Fund type oriented historical financial statements
- The Present
  - Government Wide and Fund based GASB historical financial statements
  - General purpose external reporting of financial, non-financial and performance information



## Financial Reporting (cont.)

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- The information in government's annual financial statements can provide useful information for users on the government's financial health and success.
- However, the financial statements do not readily volunteer answers to fiscal questions without **financial analysis**.



# Use of Financial Statements

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- Facilitates the use of meaningful ratios due to economic resources focus and accrual basis of accounting at the government-wide level
- Focus of most ratios is on the government-wide financial statements
- Separate ratios for governmental and business-type activities are more meaningful



# Financial Analysis

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- **Definition:** the act of converting numbers in financial statements into a form upon which specific decisions are based
- **Use of financial ratios**
  - Common-size ratios
  - Liquidity ratios
  - Solvency ratios
  - Funding ratios



# Financial Analysis (cont)

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- Ratio Analysis Guidance
  - Remember ratio thoroughness truisms
    - “No ratio is an island”
    - “An analyst does not live by one ratio alone”
  - Look for the explanations behind favorable or unfavorable ratios and/or variances
  - Place ratios in context (comparison to something)



# Comparison Issues

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- **Trend analysis** - ratio comparison to earlier periods of the same government
- **Intergovernmental analysis** - ratio comparison to similar governments
- **Standards analysis** - ratio comparison to generally accepted rules-of-thumb



# Inflation Considerations

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- Converting nominal dollars to constant dollars
- Eliminates effect of inflation on changes in nominal dollars
- Use of Consumer Price Index (CPI)

$(\text{last year CPI} / \text{comparison year CPI}) \times \text{nominal dollar amount for comparison year} = \text{constant dollar amount for comparison year}$



# The Performer

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- Crawford & Associates' copyrighted and trademarked governmental financial analysis
- Results in an overall reading of financial health and success on a scale of 1-10
- Includes 10-12 individual financial ratios
- Pretty color charts and graphs
- Written in easy-to-understand language



# A brief overview...

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- The *Performer* measures the **financial health and success** of a government using a scale that all users (including decision makers) can understand, 0-10, with 0 = extremely poor, 5 = satisfactory, and 10 = excellent
- Uses financial ratios for the evaluation
- The evaluation is only as **reliable** as the information found in the annual audited financial statements, and most **relevant** when the information can be used in a timely manner
- Relevance and reliability are the key concepts in accountability



# Use the *Perfometer* to...

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- Educate the decision-makers
- Measure the impact on financial health and performance before making significant financial decisions, such as
  - Issuing debt and/or raising taxes
    - What do our tax and debt burdens per capita look like?
    - Would our citizens be willing to pay more taxes?
    - Would our creditors be willing to allow us to issue more debt?
  - Can we increase fees of our charges for services activities and increase our revenue dispersion control and not be so reliant on revenues not under our direct control?
  - How should we address long-term pension obligations that are most-likely unfunded at the current time?
    - Pension funding bonds?
    - Changes to the plan(s)?



## Use the *Perfometer* to...

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- Determine the need for, or amount of cash to keep aside for operational purposes
  - General Fund fund balance
  - Investments, short or long-term
- Measuring future cash flows that might be necessary for capital asset replacement or needed for operations if federal funding diminishes

# Lastly, use the *Perfometer* *to...*

- Do the obvious.....
  - Track your financial health and performance over the years
  - Review the A.F.T.E.R analysis to track progress on the elimination of audit findings and questioned costs, timeliness of the release of the financial statements, and component unit related issues

# Comments/Questions???

