

Auditor of Public Accounts

Fiscal Distress Monitoring Overview

The 2017 Virginia Acts of Assembly ([Chapter 836, Part 4-8.03](#)) directs the Auditor of Public Accounts (APA) to establish a prioritized early warning system to identify possible local fiscal distress within localities across Virginia on an annual basis. Our office has developed criteria for a preliminary determination of fiscal distress based on the analysis of audited financial statement data and other qualitative factors. The result of this analysis is that each locality is given a score, called the Financial Assessment Model (or FAM) score. For fiscal year 2016, for those localities that receive a FAM score of less than or equal to the 16% threshold set by the APA, we will notify the local governing body and chief executive officer of our preliminary determination. After this notification, the locality must decide whether to allow our office to perform further review. The review will focus on information related to budget processes, debt, borrowing, expenses and payables, revenues and receivables, staffing, and any other external variables contributing to a locality's financial position, to further determine the extent of potential fiscal distress. The objective of our additional review is to obtain an understanding of how the locality is responding to potential fiscal stress and policy or plans it has in place to move forward and improve.

After completion of our follow-up and review with the locality, the Auditor of Public Accounts will evaluate and make a determination of whether or not the locality may need further assistance from the state. The Auditor of Public Accounts will then formally notify the Governor, chairmen of the money committees, and the locality's governing body, in writing, concerning the specific issues or actions that would need to be addressed by state assistance or intervention. At that point, the process is administered by the Governor and chairmen of the money committees to develop a plan for state assistance and determine what that assistance might entail. Should the locality decline any further follow-up and review from the Auditor of Public Accounts, our office will notify the Governor and chairmen of the money committees accordingly.

About the Model:

The APA is using a model to calculate 10 ratios using audited data from the localities' CAFRs. The model ranks each locality's performance by ratio and converts this into a percentile ranking and uses an average of the percentile rankings to determine an overall Financial Assessment Model (FAM) score. The APA uses the FAM score to evaluate and make a preliminary determination for the need to follow up with the locality. The APA has set a cutoff point/threshold to perform follow-up procedures for fiscal year 2016, which is an overall FAM score of 16% or less. The APA will also select localities qualitatively based on significant trends or other information available. Please be aware that the model is not intended to be used as a 'scorecard' or to rank localities against each other. The FAM score's purpose is simply to provide

our office with a threshold for making a preliminary determination if follow-up procedures are warranted.

About the Ratios:

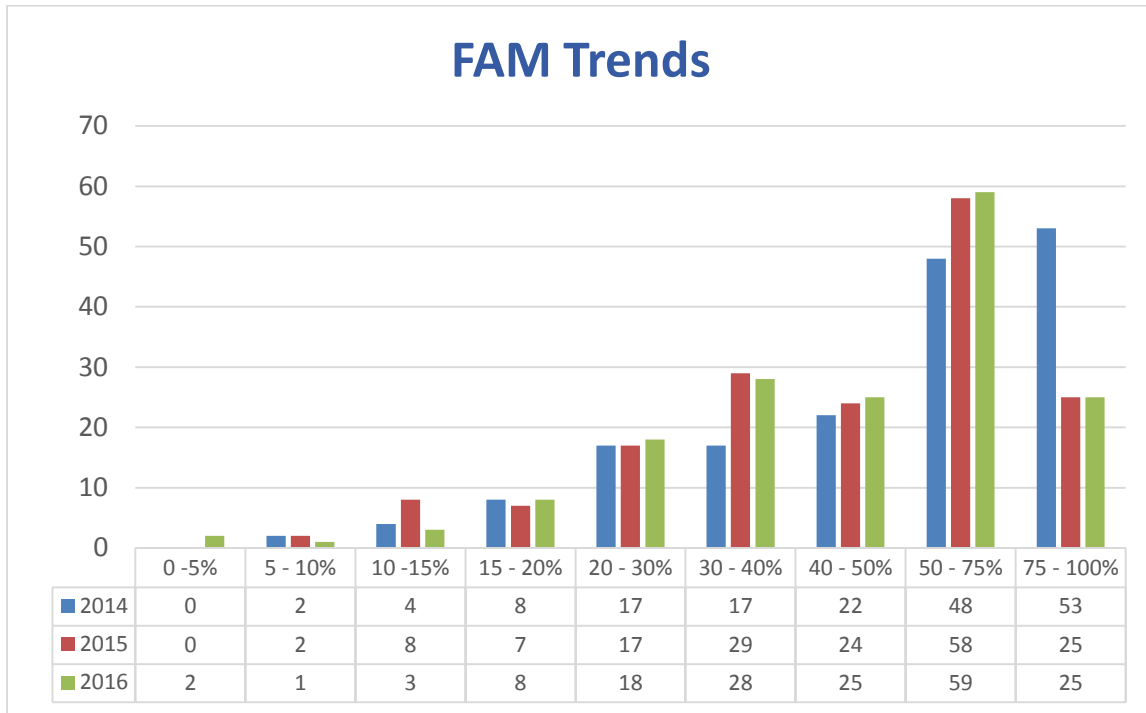
Based on Governmental and Business Type Activities funds in the Government Wide Statements:

- Ratio 1—Compared unrestricted reserves net of current liabilities to normal revenues – ability to make up revenue shortfalls
- Ratio 2—Compared unrestricted reserves to current liabilities – ability to pay current liabilities without need for additional revenue
- Ratio 3—Compared unrestricted reserves to total liabilities – ability to pay total liabilities without need for additional revenue
- Ratio 4—Compared revenues plus unrestricted reserves to expenses plus liabilities – ability to meet future obligations
- Ratio 5—Compared unrestricted net position to total expenses – ability to fund expenses in event of revenue shortfall
- Ratio 6—Compared total assets to total liabilities – measures the degree to which the assets are being financed with debt

Based on the General Fund Balance Sheet and Income Statement:

- Ratio 7—Compared liquid assets to total liabilities – ability to pay liabilities without needing additional revenues
- Ratio 8—Compared total expenditures to total liabilities – measure how well locality is paying its general fund bills
- Ratio 9—Compared assigned and unassigned fund balances to total expenditures – measures ability to fund expenditures from reserves in event of a revenue shortfall
- Ratio 10—Compared total fund balance to total revenues – measures sufficiency of reserves relative to revenue

For informational purposes, this graph below shows the distribution of the FAM scores for all localities for the past 3 fiscal years:



About the Questionnaire:

We are providing an assessment questionnaire to all localities. For those localities that we plan to perform a follow-up review, we will request locality management to complete the questionnaire, share it with the local governing body, and submit the completed questionnaire to our office. Once we receive the completed questionnaire, we will schedule a time to meet with representatives from the locality to discuss the information provided. We may also request any pertinent documents or supplemental information to assist in our review of the completed form. For localities that we do not plan to review further, we are providing the questionnaire for their use (optional) in performing a self-assessment.

The questionnaire is located on the APA website, Local Government page at:

http://www.apa.virginia.gov/data/download/local_government/guidelines/Fiscal Stress Monitoring Follow-Up Questionnaire.xlsx