

FINANCIAL CONDITION ANALYSIS

- ▶ City of Newton
- ▶ Fiscal Year 2012-2013



FINANCIAL CONDITION ANALYSIS

▶ Management Tool

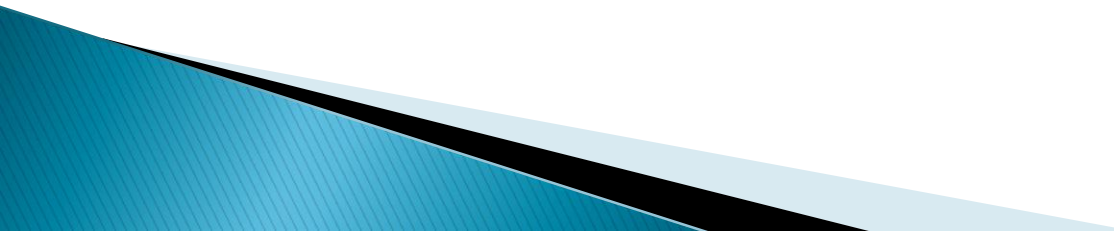
- Helps local governments communicate complex financial information in an easy to understand format
 - Utilizes a Dashboard format to present trend data
 - Evaluates financial condition against benchmark peers
 - Analysis is based on Government-wide and Fund level Reporting

FINANCIAL CONDITION ANALYSIS

▶ Assessment tool

- Introduced in July 2010
- Developed by the UNC School of Government
- Implemented by the Department of State Treasurer
 - To provide a systematic, but manageable, approach to financial condition analysis in local government

FINANCIAL CONDITION ANALYSIS

- ▶ This report graphically represents financial data from the City's Comprehensive Annual Financial Reports for the past five years. The graphs compare the City's financial data to that of its peer group to provide a better understanding of the overall financial condition of the City.
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BENCHMARK GROUP

- ▶ **Lincolnton** – pop. 10,487
 - *County Seat, Lincoln County*
- ▶ **Morganton** – pop. 16,861
 - *County Seat, Burke County*
- ▶ **Clayton** – pop. 17,138
 - *Johnston County*
- ▶ **Albemarle** – pop. 16,197
 - *County Seat, Stanly County*
- ▶ **Kings Mountain** – pop. 10,577
 - *Cleveland County*

FINANCIAL CONDITION INDICATORS

Resource Flow (Operations)

- Total Margin
- Financial Performance
- Self-Sufficiency
- Financing Obligation

Resource Stock (Balance Sheet)

- Liquidity
 - Solvency
 - Leverage
 - Capital
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FINANCIAL CONDITION INDICATORS

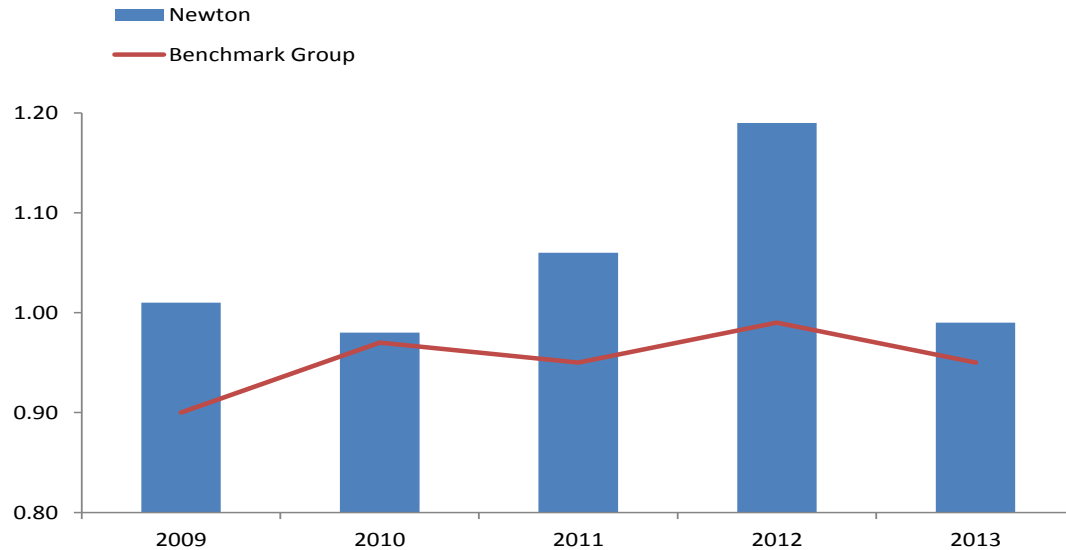
RESOURCE FLOW (OPERATIONS)

TOTAL MARGIN RATIO

Ratio of revenue to expenditures

(Ability to live within financial means)

General Fund



Newton =0.99, Benchmark =0.95

A ratio of 1.0 or higher indicates the City has lived within its financial means while not building up excess reserves.

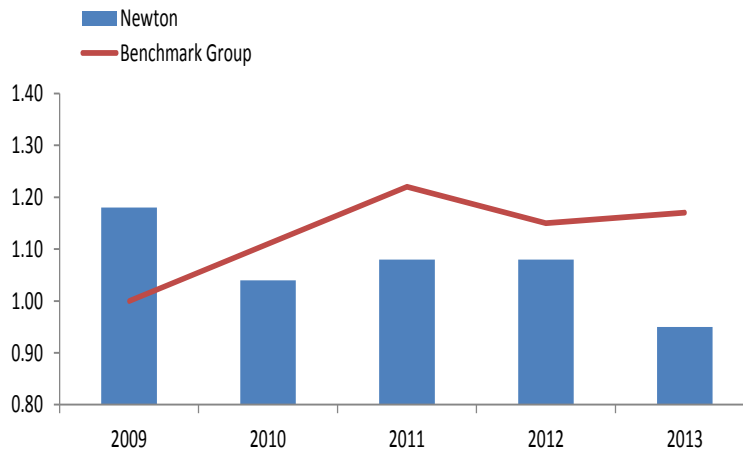
Note: FY 2012 reflects \$1.2 million contribution from Sue Jones Estate

TOTAL MARGIN RATIO

Ratio of revenue to expenses

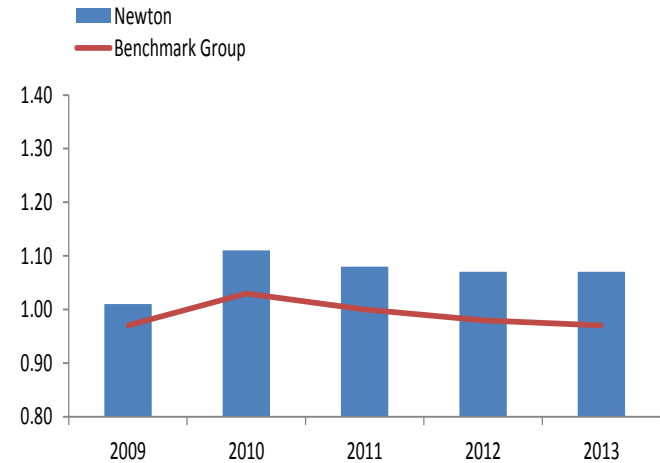
(Ability to live within financial means)

Water & Wastewater Fund



Newton =0.95, Benchmark =1.17

Electric Fund



Newton =1.07, Benchmark =0.97

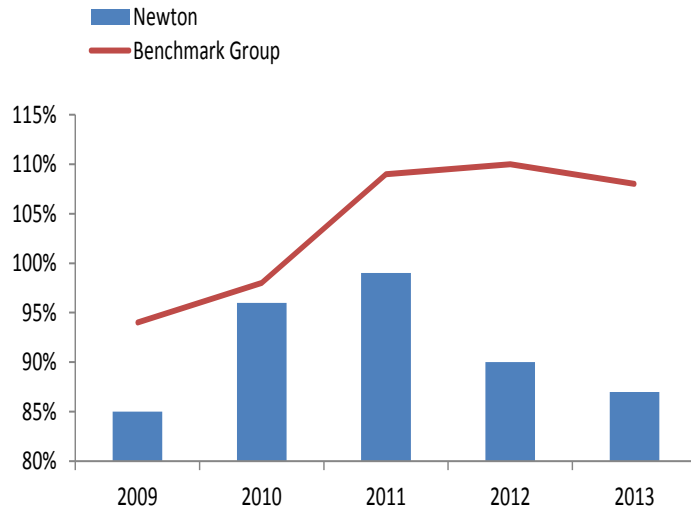
A ratio higher than one indicates the City has lived within its means while not building up excess reserves.

CHARGE TO EXPENSE RATIO

Charges for services compared to total expenses

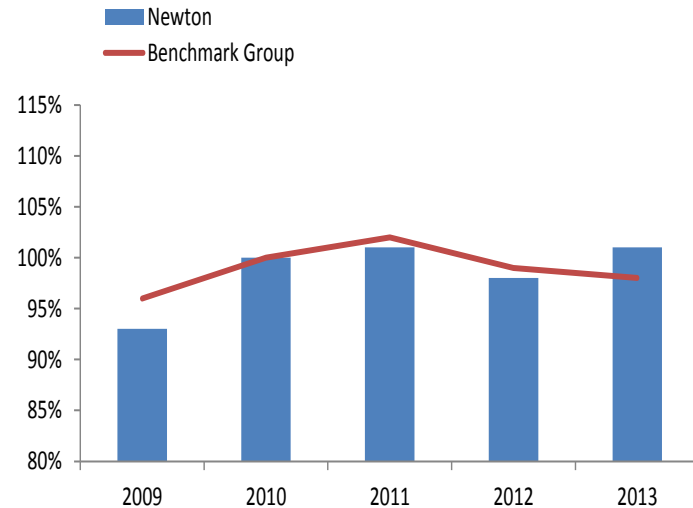
(Self Sufficiency - charges are sufficient to cover expenses)

Water & Wastewater Fund



Newton =87.0%, Benchmark =108.0%

Electric Fund



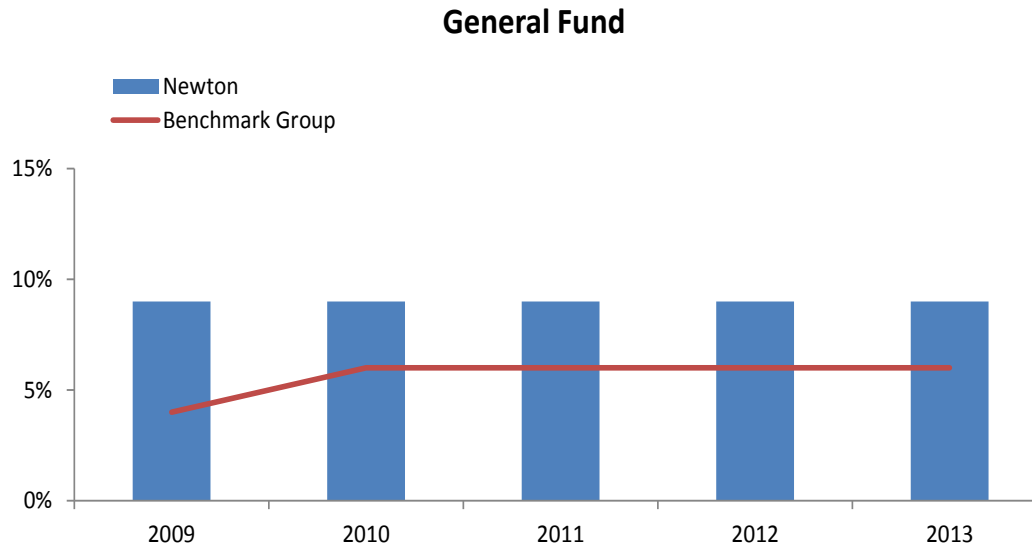
Newton =101.0%, Benchmark =98.0%

The City's peers are able to cover a larger portion of expenses in the Water/Wastewater Fund indicating that services are more fully self-supporting while the City's charges for services compared to expenses are very comparable to its peers within the Electric Fund.

DEBT SERVICE RATIO

Debt service compared to total expenditures

(Financing Obligation - Service flexibility in relation to debt service committed)



Newton =9.0%, Benchmark =6.0%

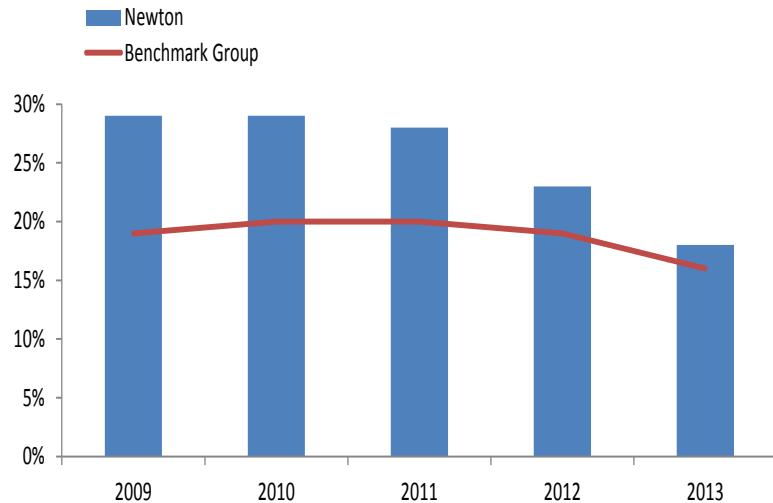
The City is somewhat more reliant on debt than its peer group indicating more resources are committed to financial obligations.

DEBT SERVICE RATIO

Debt service compared to total expenses

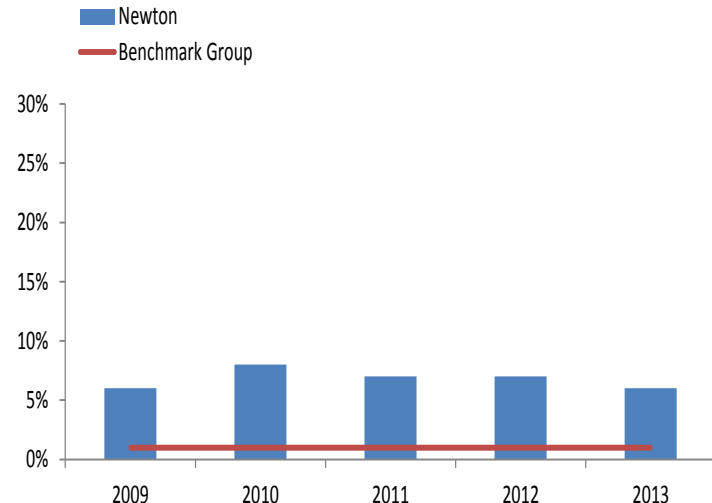
(Financing Obligation - service flexibility in relation to debt service committed)

Water & Wastewater Fund



Newton =18.0%, Benchmark =16.0%

Electric Fund



Newton =6.0%, Benchmark =1.0%

The City is more reliant on debt than its peers, indicating more resources are committed to required debt service obligations and limiting our resources for operations. The City's reliance on debt within the Water/Wastewater Fund has reduced somewhat bringing it more in line with its peers.



FINANCIAL CONDITION INDICATORS

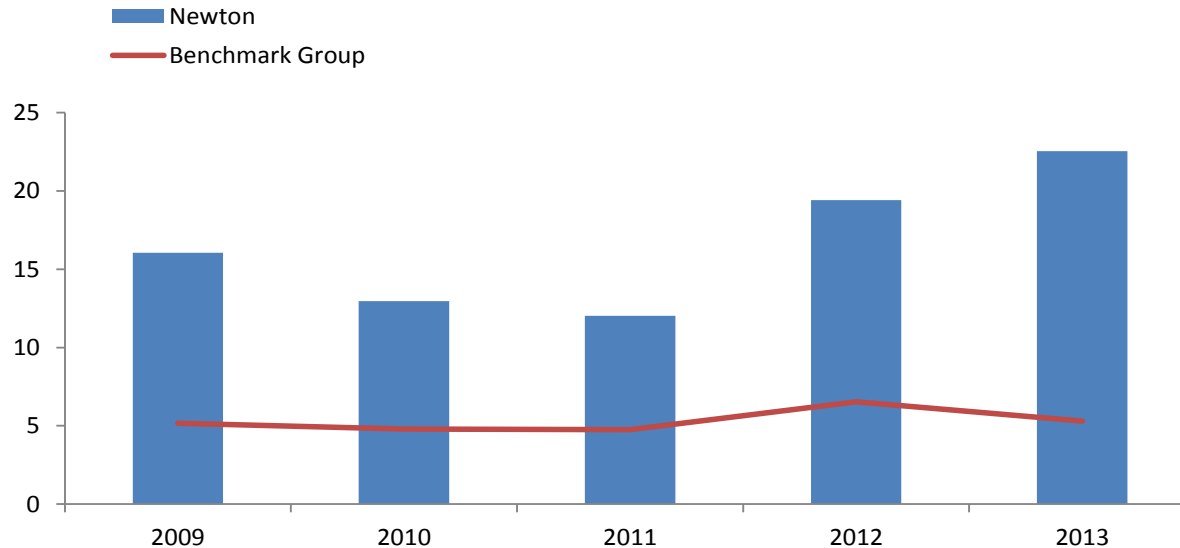
RESOURCE STOCK (BALANCE SHEET)

QUICK RATIO

Cash and investments compared to current liabilities

(Liquidity - ability to address short-term obligations)

General Fund



Newton =22.55, Benchmark =5.3

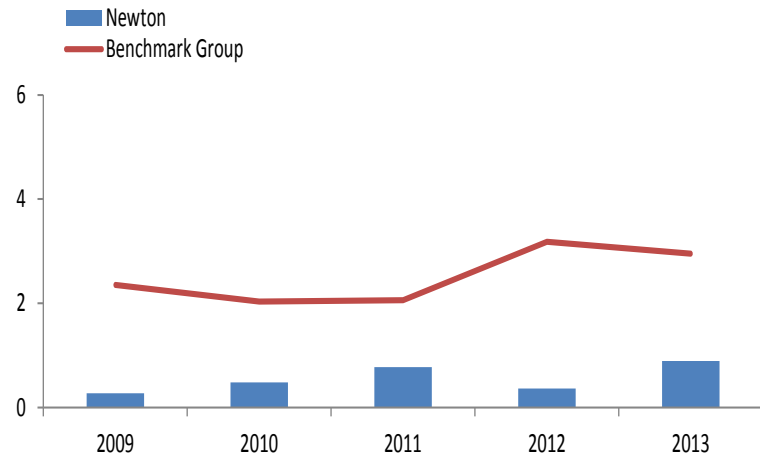
While the City's cash and investment levels are adequate to cover current obligations, the City maintains the lowest cash and investments per dollar than each of its peers with the exception of one peer. The City maintains the lowest current liabilities of the entire peer group.

QUICK RATIO

Cash and investments compared to current liabilities

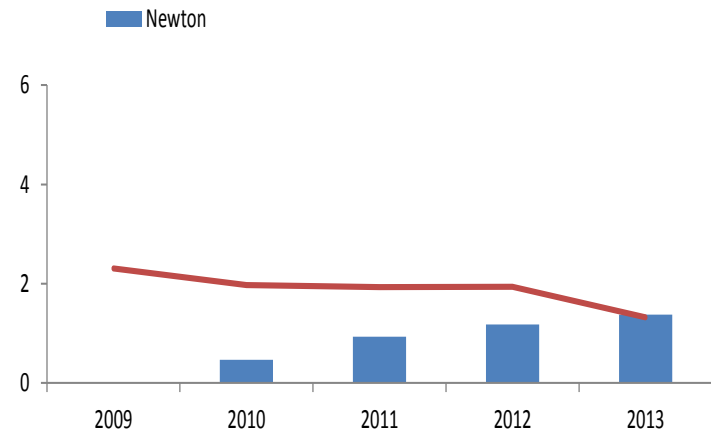
(Liquidity - ability to address short-term obligations)

Water & Wastewater Fund



Newton =0.89, Benchmark =2.95

Electric Fund



Newton =1.38, Benchmark =1.32

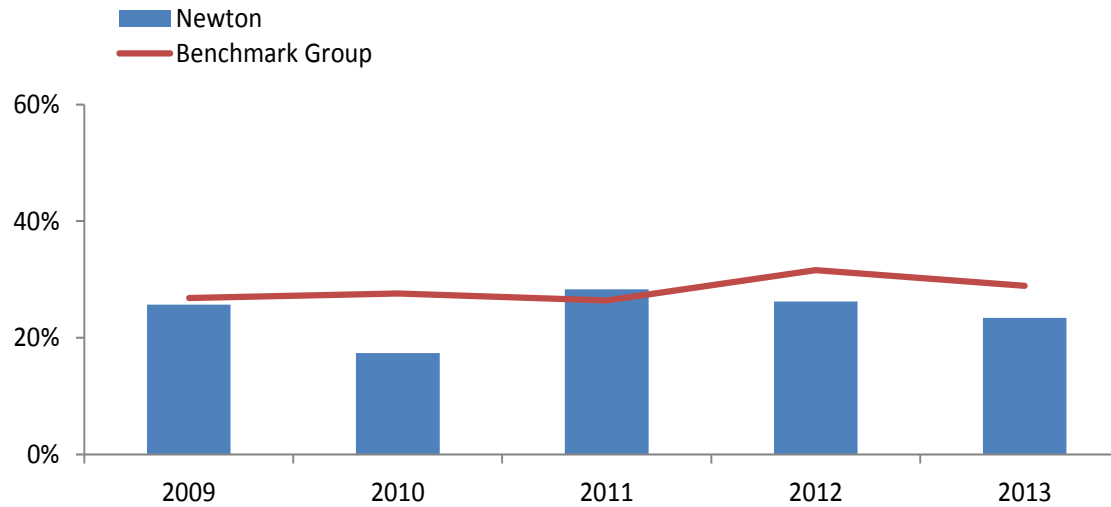
The City's cash and investment levels are lower than the City's peer group. The City's Water/Wastewater Fund indicates current liabilities exceed cash and investments indicating lack of ability to address short-term obligations.

FUND BALANCE

Fund balance as a percentage of expenditures

(Solvency - ability to address long-term obligations)

General Fund



Newton =23.4%, Benchmark =28.9%

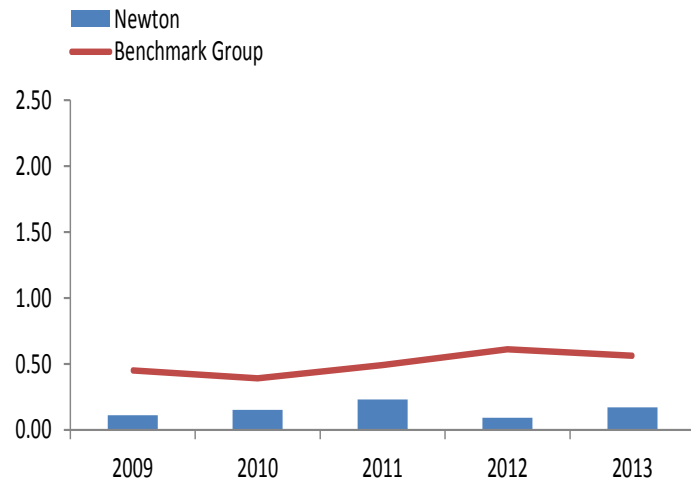
The City's unassigned (unrestricted) fund balance remains slightly lower than its peer group.

Net Position Ratio

Ratio of net position (unrestricted) to total liabilities

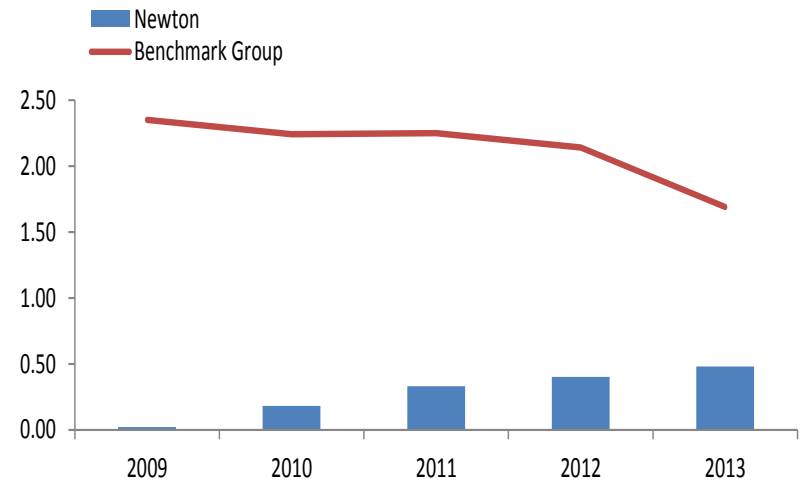
(Solvency - ability to address long-term obligations)

Water & Wastewater Fund



Newton =0.17, Benchmark =0.56

Electric Fund



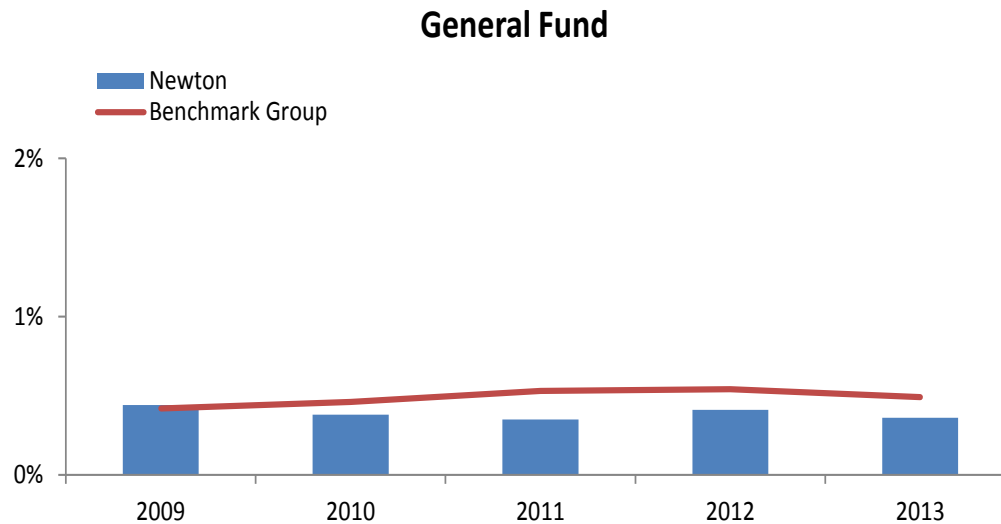
Newton =0.48, Benchmark =1.69

The City's net position (unrestricted) remains lower than its peer group which indicates the peer group is in a better position to meet long-term obligations than the City. However, the Electric Fund continues to exhibit improvement each year.

DEBT RATIO

Debt as a % of assessed value

(Leverage - extent government relies on tax supported debt)



Newton =0.36% Benchmark =0.49%

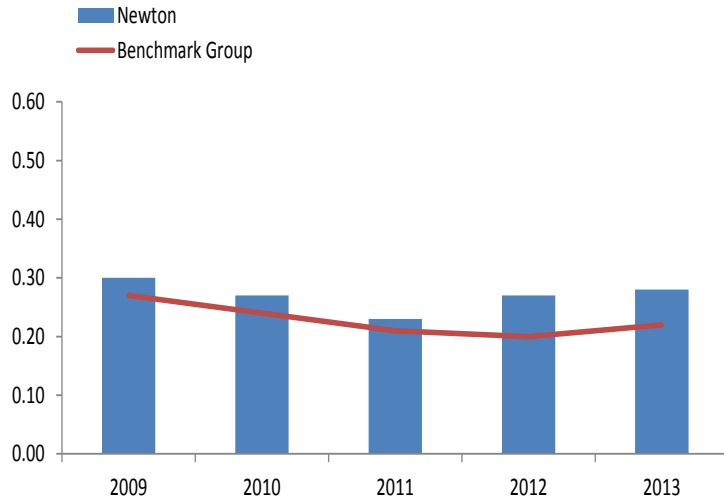
The City is slightly less reliant on debt that is supported by tax revenues than its peer group.

DEBT RATIO

Ratio of long-term debt to total assets

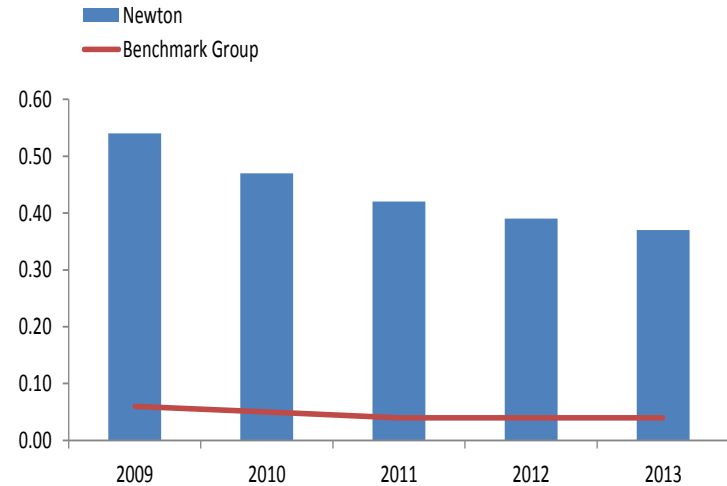
(Leverage - extent assets are financed with long-term debt)

Water & Wastewater Fund



Newton =0.28, Benchmark =0.22

Electric Fund



Newton =0.37, Benchmark =0.04

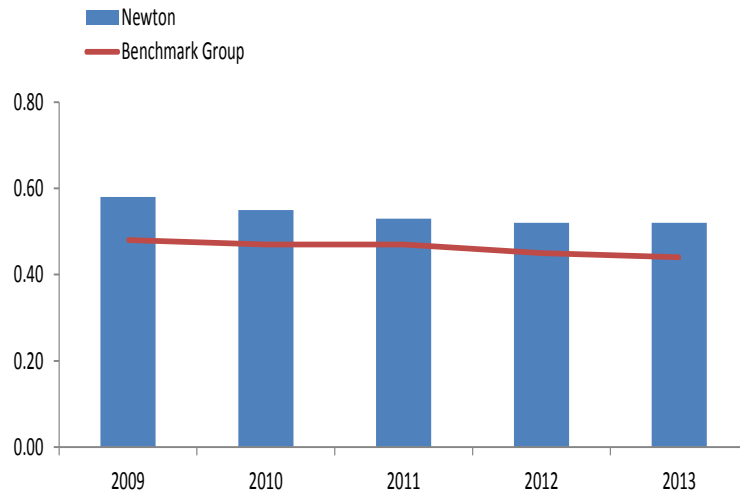
This ratio indicates that the City is more reliant on long-term debt for financing assets than the City's peer group. However, the long-term debt in the Electric Fund is declining which improves our ability to meet current and future financial obligations.

CAPITAL ASSET CONDITION RATIO

Accumulated depreciation divided by capital assets

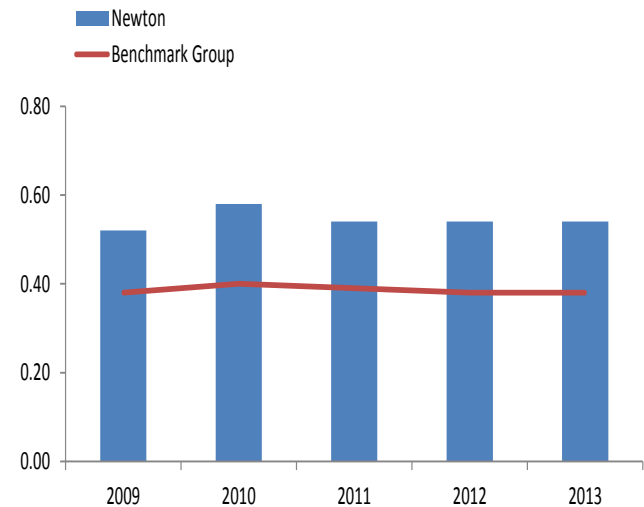
(Capital - condition of capital assets)

Water & Wastewater Fund



Newton =0.52, Benchmark =0.44


Electric Fund



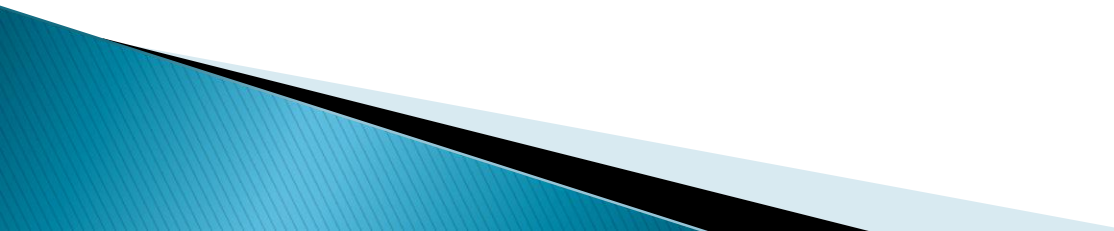
Newton =0.54, Benchmark =0.38

The capital assets of the City are less depreciated than the City's peer group indicating the City is systematically investing in capital assets.

SUMMARY

- ▶ The City maintains lower cash and investment levels.
 - ▶ The City's unassigned/unrestricted fund balance and unrestricted net position remains lower than its peer group.
 - ▶ Our ability to meet short-term and long-term obligations is not as strong.
 - ▶ Our charges for services cover a smaller portion of expenses within the Water/Wastewater Fund while the Electric Fund is comparable.
 - ▶ The City is more reliant on debt than its peer group thereby reducing service flexibility (committing resources to pay debt service).
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SUMMARY (cont.)

- ▶ Current liabilities within the City's Water/ Wastewater Fund exceed cash and investments which indicates lack of ability to address short-term obligations.
 - ▶ We are investing in capital assets at a comparable rate with our peer group while the City's Electric Fund is at a faster rate.
 - ▶ While the financial position for both of the City's enterprise funds continue to exhibit signs of improvement, there is still need for continued financial stability.
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Recommendations

- ▶ Maintain a balance between debt financing and pay-as-you-go financing.
 - It provides flexibility for issuing additional debt when needed.
 - Too much debt limits our resources for operations.
 - ▶ Continue to build financial stability within our enterprise funds by increasing cash reserves.
 - ▶ Increase fund balance by adopting budgets that focus on increasing cash reserves.
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