

## EXAMPLE FINANCIAL CONDITION ASSESSMENT METHODOLOGY

The following is an example methodology for evaluating preliminary financial indicator results for a local governmental entity:

An EXCEL spreadsheet is used to document preliminary evaluation of financial indicators for a local governmental entity. Upon input of the data elements, the spreadsheet computes the financial indicator results.

Each indicator is rated as favorable, unfavorable, or inconclusive based on the guidelines included in [Appendix A](#). Two components of each indicator are evaluated: (1) the direction of the entity's trend and (2) a comparison of the entity's most recent (i.e., year 5) financial indicator result to the benchmark.

**Trend Ratings** - An inconclusive rating is used if the entity's trend of indicator results is erratic (i.e., lack of a clear trend) or insufficient data was available to draw a conclusion. A favorable/unfavorable rating is used if appropriate based on the guidelines included in [Appendix A](#).

**Benchmark Ratings** – An inconclusive rating is used when the entity's year 5 indicator result does not vary significantly from the year 5 benchmark indicator result. A favorable/unfavorable rating is used as appropriate based on the guidelines included in [Appendix A](#).

**Overall Ratings for Individual Financial Indicators** – An overall rating is assigned by the auditor to each financial indicator based on the trend and benchmark ratings described above.

**Overall Ratings for an Entity** - Based on the results of the individual financial indicator ratings and taking into consideration the individual ratings for critical financial indicators, an overall rating is assigned by the auditor.