PICA Fact Sheet: City of Philadelphia

FY23 Annual Comprehensive Financial Report

Key Takeaways

- The City's FY23 Annual Comprehensive Financial Report (ACFR) received an unmodified opinion from the City Controller
- On a budgetary basis, no further adjustments from the Annual Financial Report (AFR) were made to General Fund revenue, expenditure, or fund balance totals for FY23
- From FY22 to FY23 the City's General Fund balance grew by 26%

What is the ACFR?

The Annual Comprehensive Financial Report (ACFR) is published by the Office of the Director of Finance each year by the end of February. This report is a full set of financial statements for the City, produced in compliance with Generally Accepted Accounting Principles (GAAP) in adherence to Government Accounting Standards Board (GASB) standards. The ACFR is audited by the City Controller and intended to present a transparent view of the City's finances for elected officials, residents, businesses, and current and potential investors. In addition to being a best practice for local governments, producing these annual audited financial statements keeps the City in line with the U.S. Securities and Exchange Commission's (SEC) continuing disclosure requirements and able to access capital markets.

What can we learn from the ACFR?

Designed to be a transparent summary of the City's finances for a given fiscal year, the ACFR is a good place to learn about the City's general financial condition. Did revenues exceed expenditures? How big is the fund balance? How much does the City still owe on the pension bonds issued in 1999? How much outstanding pension liability does the City have? What is the combined value of the City's assets? These are the kinds of questions – focused on the City's financial condition at the end of the previous fiscal year – that the ACFR is good at answering.

Here are some examples:

Change in Actual Fund Balance

$779 million	$982 million	$203 million	26%
FY22	**FY23**	**$ change**	**% change**

The fund balance is like the backstop for the City's budget. If things don't go as planned, ideally there's a fund balance carried forward from prior fiscal years that can help soften the impact. However, fund balances can't be built up when obligations exceed revenues. Therefore, a declining fund balance can be a sign of fiscal stress.

PICA Pennsylvania Intergovernmental Cooperation Authority

Change in Tax and Locally Generated Non-Tax (LGNT) Revenue

$4.54 billion	$4.57 billion	$34 million	0.7%
FY22	**FY23**	**$ change**	**% change**

Tax Revenue and LGNT Revenue are the City's locally generated revenues. Non-locally generated revenues like state rebates or federal grants can show swings from year to year that represent policy changes outside of the City's control rather than changes in underlying economic activity. Focusing on locally generated revenues removes some of that noise and gets to the foundation of the City's finances. Any sustained decline in locally generated revenues would impact the City's ability to provide services.

Debt Service as % of Spending

4%
FY23

Payments towards debt service and other long-term obligations represent a balancing of past and present needs against future needs. Increasing the City's debt can help secure funding to address current and future needs but repaying that debt over time can limit the City's ability to address emergent needs in the future. Devoting a large portion of the City's budget to debt service creates a long-term fixed cost and reduces fiscal flexibility.

What the ACFR isn't good for

As a thoroughly audited year-end review, the ACFR is great for overarching statements of financial condition. As a report that gets released more than halfway through the following fiscal year, the ACFR is not a good source of information for the latest trends or progress reports on the City's budget. Essentially, the ACFR can tell you in general terms how prepared the City is for a fiscal emergency. It cannot tell you how well the City is managing its current budget, like the QCMR, or project future spending and revenue trends, like the Five-Year Plan.

Why does it look different?

a) Accounting

Most of the content in the ACFR is presented differently than the City's budget documents. Budget documents are shown with numbers that sync with the City's budget process as outlined in the City Charter. This approach, called the budgetary basis of accounting, is designed to streamline the deliberative and legislative side of the budget process. Most of the fund and financial statements in the ACFR are shown using different accounting methods, all in line with GASB standards. The Government-Wide Financial Statements use the accrual basis of accounting, and the governmental fund statements use a modified accrual basis of accounting. The Notes to the Financial Statements section of the ACFR has details on how the City uses different GASB standard bases of accounting. The City provides helpful comparison tables between the budgetary basis and modified accrual basis of accounting for each of the major governmental fund statements.

b) Audited

Another difference with the ACFR compared to other City budget documents is that the financial statements in the ACFR are audited. This means that financial statements in the report have been methodically and externally reviewed in accordance with Generally Accepted Auditing Standards (GAAS) to ensure they represent the City's financial position fairly in all material respects. After the City Controller audits the ACFR financial statements developed by the City, the Controller's office gives one of four opinions on the financial statements:

1. *Unmodified Opinion* – This is the best! It's the opinion the City received on its FY23 ACFR! It means that the auditors agreed with the financial statements as presented and found them to be fair and accurate.
2. *Qualified Opinion* – Uh oh! This means the auditors found a material error in the financial statements, but the error wasn't systematic or pervasive.
3. *Adverse Opinion* – This is really bad! It means the auditors found material errors in the financial statements, and the errors were pervasive.
4. *Disclaimer of Opinion* – This is also really bad! It means the auditors suspected the statements included materially impactful and pervasive misstatements but weren't provided with documentation needed to pinpoint the impact and extent of the error.