

**Financial analysis of the city of Zamość for the
years 2013 - 2017**

Political Preferences
2018, vol. 20: 83-100.
DOI: 10.6084/m9.figshare.7154753
journals.us.edu.pl/index.php/PP
Submitted: 29/06/2018
Accepted: 24/09/2018

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Abstract:

In short-term, the activities of local government units are significantly different from those of enterprises. The short-term goal of the activity of a local government unit is to meet collective needs of its residents, and the short-term goal of commercial enterprises is to maximize profits. However, in long-term, in the case of local government units and commercial enterprises, both goals are similar – an increase in the value of the territorial self-government / commercial enterprise assets). In both cases, the financial analysis tools can be considered as helpful in the decision-making process as well as the assessment of the broadly understood effectiveness. Therefore, based on the models developed for enterprises in the field of financial analysis, it is worth making an attempt to assess the financial effectiveness of local government units. The aim of the article was to show, on the example with specific indicators and their interpretation, that the financial analysis of local government units provides a lot of useful information both to the manager of the unit and entities cooperating with a given local government unit. The article stresses the legitimacy of financial analysis in local government units and presents the basic tools for such.

Key words:

local government units, cities with powiat rights, Zamość, public finance, financial analysis, evaluation of the unit's activity, efficiency of operations

Introduction

In contrast to commercial entities geared towards making profits, local government units measure the effectiveness of their actions by the level of satisfaction of residents, not the maximization of their profits. On the other hand, as the name "self-government" indicates, it has

independence, also in the financial sphere. Expenditures incurred on the implementation of public tasks play an important role in meeting the collective needs of residents. Therefore, it seems reasonable to learn about the factors determining financial phenomena and processes related to the management of financial resources. Therefore, the financial analysis of local government units should be focused on the identification and assessment of these factors and processes.

In this study, preliminary financial analysis of the city of Zamość was carried out in 2013 - 2017. This analysis was made on the basis of reports on the implementation of budgets and cash flows of the city of Zamość. Data on cash flows constitute a modification of reports on the implementation of the budgets of the city of Zamość in the audited period. The study was divided into two parts. The first shows analysis and assessment of the structure and dynamics of reports on the implementation of the budget and the cash flow of the city of Zamość. The second part presents and analyses the most important financial indicators of the city of Zamość, on the basis of which it was possible to assess the data contained in the first part.

The main goal of the article is the analysis and evaluation of the city of Zamość in 2013-2017. The detailed objectives focus on the analysis of the structure and dynamics of specific items of reports on the implementation of the budget and specific cash flows of Zamość. Among the research methods used in this study, one can distinguish: comparative method, historical systemic, functional and quantitative method.

1. Analysis of the financial statements of the city of Zamość

Report on the implementation of the budget

The income of territorial self-government units is their own income as well as general subsidy and targeted subsidies from the state budget (Dz. U. 1997, no. 78, item 483). Out of these income groups, own revenues are the most predictive. The characteristic feature of own revenues is their non-returnable and unconditional nature. The greater the share of this group of income in the total of local government units, the better and more precise it can be estimated.

It should be emphasized that the constitutional law very widely regulates the category of its own revenues. In order for local self-government units to be able to conduct independent financial management, they should have power to shape their income. In order for the authority to be effective in this respect, local government revenues must meet certain conditions. Above

all, they should permanently belong to local government units means that these revenues are directly part of the property of local governments (Sochacka-Krysiak 2008: 151).

In addition, they should be ordinary (cyclical) income as opposed to extraordinary (periodic) revenues arising from some extraordinary items. An example of extraordinary income may be inflows from self-taxation of residents, which are temporary (usually 1-3 years) most often related to the necessity of eliminating the effects of extraordinary states (natural disasters, fortuitous events, etc.). Unconditionality of inflows from particular sources of income means that they cannot have a predetermined purpose. The main goal of local government revenues should be to top up the budget of the local government unit. This requirement is in line with one of the basic principles of budget law (the principle of unity of the budget). Acquiring income by local government units in its entirety means that no other entities participate in the sources of income from which they are acquired by local governments.

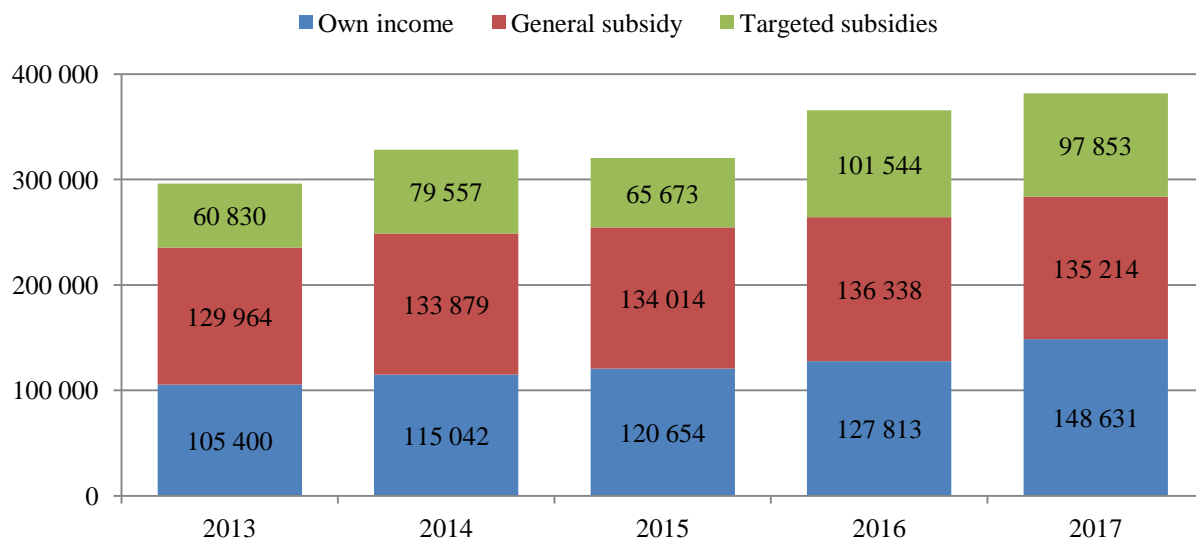
The dependence of the local government budget on transfers from the state budget may be the cause of many conflicts, among which one can distinguish:

- conflict with the autonomy of local administration (especially when the award criteria are not clear);
- equalization of the differences between territorial self-government units by subsidies is in conflict with the effective allocation of capital;
- conflict with the principle of the legitimacy of local government administration¹,
- subsidies are anti-motivating to local and regional economic development².

Targeted subsidies and general subsidies represented, on average, 64% of total income of the city of Zamość during the analysis period. The quotient of the share of subsidies and subsidies in total revenue, counting the years 2017 to 2013, decreased by 5%, which should be assessed positively. A detailed breakdown of the Zamość income structure in 2013 - 2017 is shown in Chart 1.

¹ When income comes only from local taxes, the relationship between taxes and services provided by local government units is clear, which promotes responsibility as well as the clarity of the political process. Subsidies of this clear process may disrupt, because local government administration does not feel so much responsible to the taxpayer.

² In its own way, the increase in the tax base of a local government unit is punished because it is due to lower subsidies

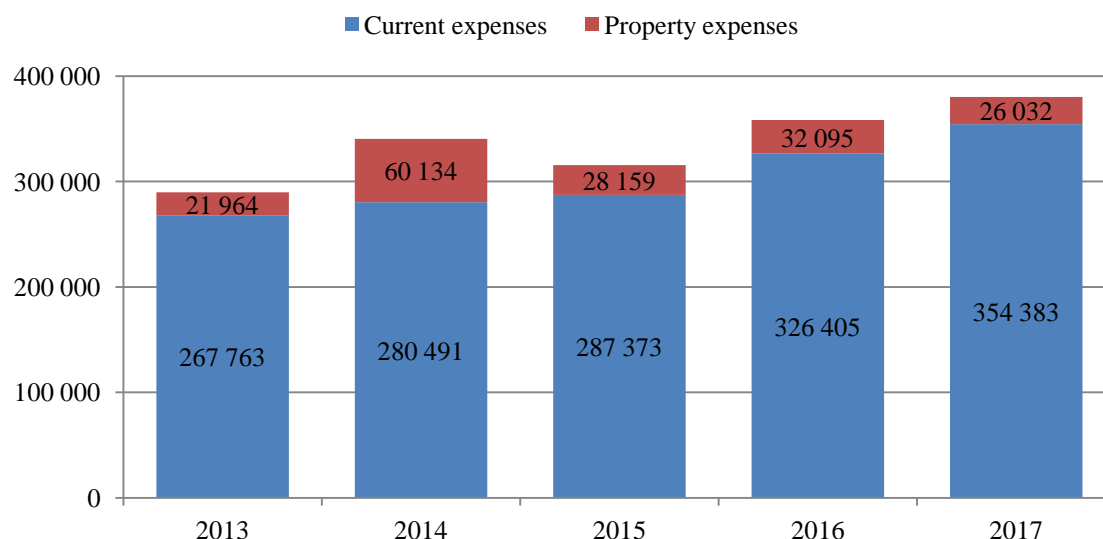
Chart 1. City's income Zamość in 2013 - 2017 (in PLN thousand)

Source: Own study based on Reports on the implementation of the budget of the city of Zamość for 2013, 2014, 2015, 2016, 2017.

Due to the goal, the expenditure can be divided into current and property. The current expenditure is related to the day-to-day operation of the local government sector. The property expenses are investments (*in the broad sense*), i.e. purchases of fixed assets, construction of municipal facilities and capital investments (purchase of securities).

Property expenses are the most desirable group of expenditures, because through them the local government can influence the development of the region they administer, they can attract private sector investment, while contributing to reducing unemployment among local communities as well as increasing the tax base in their area. This means the creation of a specific market, in which local governments compete with each other for attracting investments. In the private sector, the importance of the material factor is decreasing, and the importance of know-how, management methods, etc. is increasing. As a result, the private sector is looking for optimal locations for its development. Local governments wanting to compete for private sector investments must provide qualified personnel in this sector with an appropriate standard of living through well-developed infrastructure (cultural, service, communication, housing), adequate quality of the natural environment. It is worth emphasizing, however, that there is natural competition between current and property expenditure, because with given financial resources local government authorities must make choices between these expenditure groups. A detailed breakdown of the Zamość income structure in 2013 - 2017 is shown in Chart 2.

Chart 2. Expenses of the city of Zamość in 2013 - 2017 (in PLN thousand)



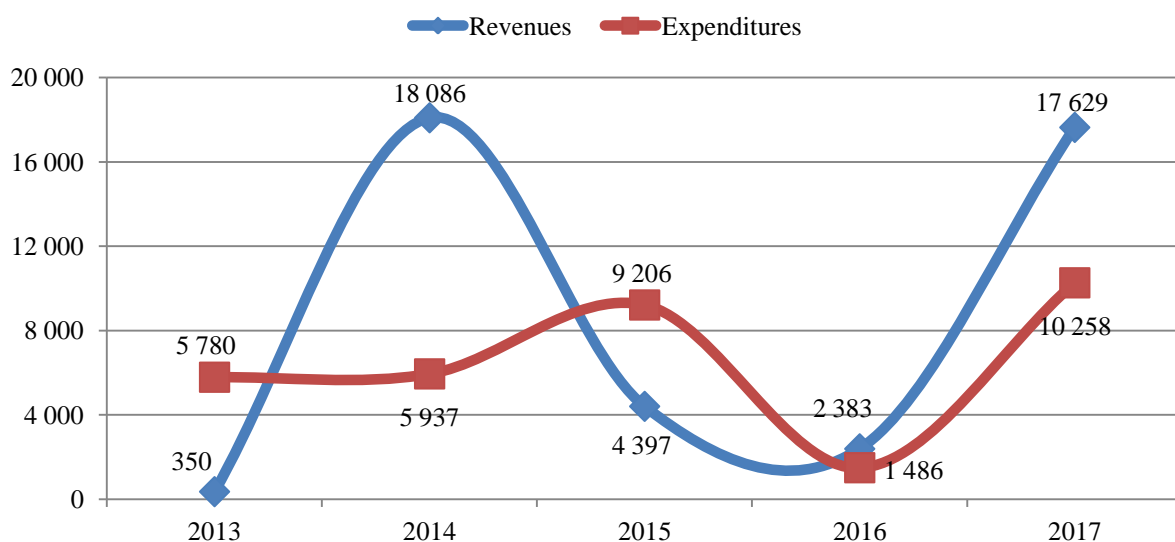
Source: Own study based on: Reports on the implementation of the budget of the city of Zamość for 2013, 2014, 2015, 2016, 2017.

Capital expenditures accounted for an average of 10% of total expenditures of the city of Zamość during the analysis period. The quotient of the share of capital expenditures in total expenditure, counting the year 2017 to 2013, decreased by 10%, which should be assessed negatively. The highest value of property expenditure was realized in 2014. It was related to the implementation of, among others, such investments as: "Zamość Miasto UNESCO, Monument to the history of the Republic of Poland with a tourist product of the Polish economy" for which PLN 19.9 million was spent and "Creation of the Museum of Fortifications and Weapons within Bastion III and Arsenal in Zamość" for which PLN 18.8 million were spent.

In addition to the revenues and expenses, local government units also use repayable funds (revenues), which must be returned at their maturity (expenses). In order to be sure about the appropriateness of incurring financial liabilities, an assessment of fairness and the effectiveness of the use of this financial instrument should be made. To use the funds held by local government units in an effective manner, it is necessary to use debt. If the projects are made only with the help of current revenues (own or received - targeted subsidies and general subventions), the value of the investment may be at most equal to these incomes. If the debt is used, the same means allow investments of much higher value. In addition, if the current funds are spent on investment expenses, then it happens at the expense of ongoing operations. It is both ineffective and unjust. Of course, the issue of the cost of debt service is not insignificant.

The sources of the revenues of local government units are, among others, loans and credits received. They belong to the category of return revenues and are used to cover budget deficit, i.e. a negative difference between the forecasted income and the planned expenditure of the local government unit. Within public finances, they are earmarked for specific public expenditures, so they are intended to be purposeful and should be used in an economical way. A detailed comparison of the revenues and expenditures values of the city of Zamość in 2013-2017 is shown in Chart 3.

Chart 3. Revenues and expenditures of the city of Zamość in 2013 - 2017 (in PLN thousand)



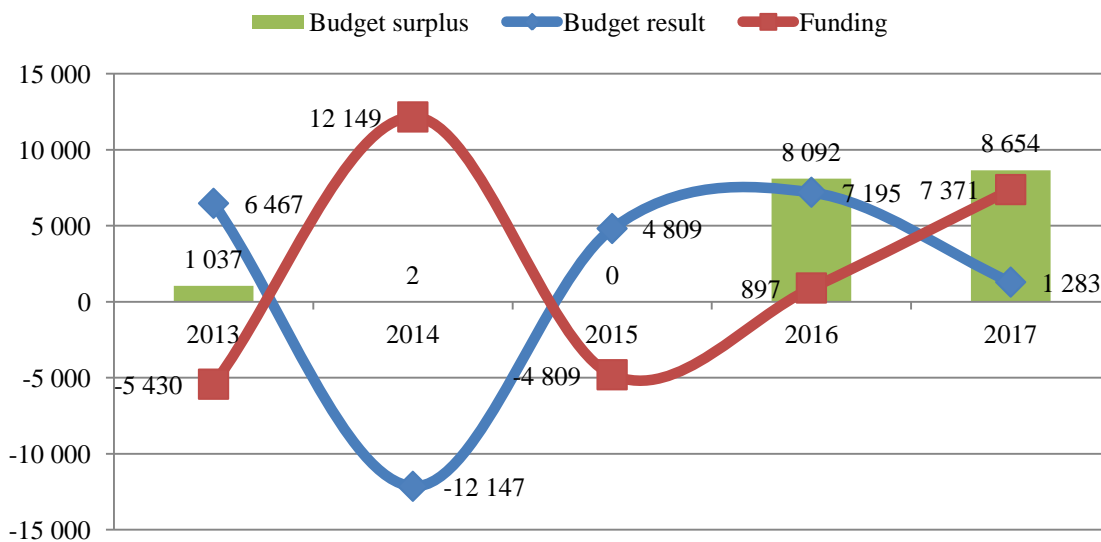
Source: Own study based on Reports on the implementation of the budget of the city of Zamość for 2013, 2014, 2015, 2016, 2017.

Revenues and expenses in the city of Zamość were at the average annual level of around 2% of total revenues during the period under consideration. In 2013, the value of revenues achieved at a record low level (PLN 350 thousand), and in 2014, the value of revenues of the city of Zamość exceeded PLN 18 million. This state of affairs was a consequence of the implementation of relatively "large" investment expenditures in 2014 (see Chart 2), the value of which exceeded the income possibilities of the city of Zamość, hence it had to be profit-based. The highest value of expenditures was realized in 2017 (over PLN 10 million), of which PLN 9 million was allocated for the purchase of municipal bonds.

The positive difference between total income and total expenditure is the budget surplus (the negative difference is the budget deficit). The difference between revenues and expenditures is financing (repayable funds, budget deficit). A positive value of financing means that the local

government unit increases debt and a correspondingly negative value of financing means debt relief. The sum of the budget surplus (deficit) and financing determines the value of the budget result. The budget result cannot be negative, as it would mean that not all expenditures and expenses have been covered by revenues and revenues. A detailed comparison of the budget surplus, financing and the budget result of the city of Zamość in 2013-2017 is shown in Chart 4.

Chart 4. Budget surplus, financing and the budget result of the city of Zamość in 2013 - 2017 (in PLN thousand)



Source: Own study based on Reports on the implementation of the budget of the city of Zamość for 2013, 2014, 2015, 2016, 2017.

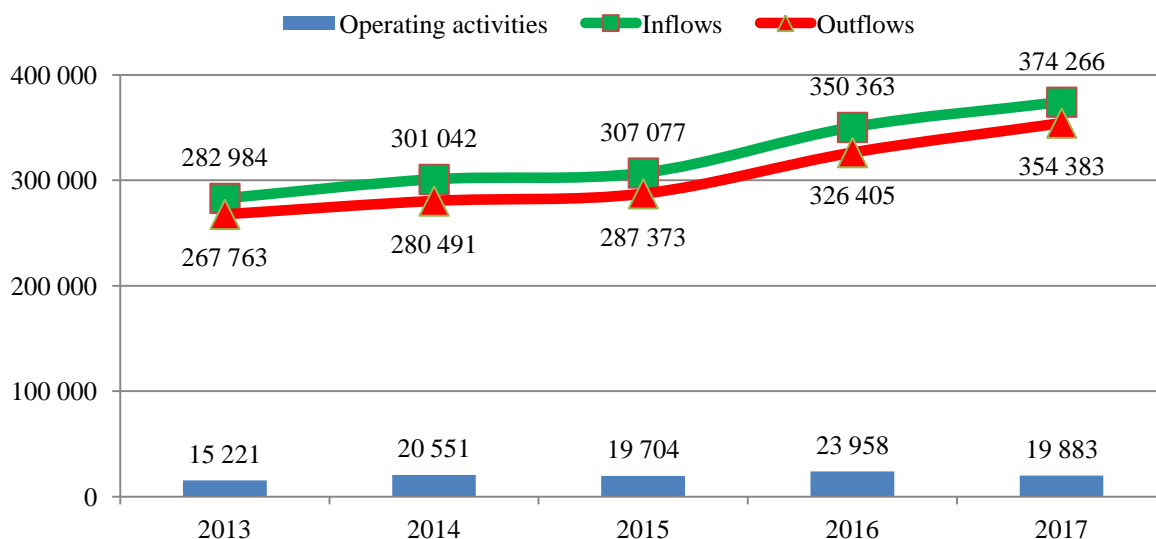
In the city of Zamość, in the analysed period, the budget deficit occurred only in 2014 and was a consequence of financing the above-described investment expenditures. In addition, financial commitments were made for this purpose, which was reflected in the increase in financing (Chart 4). In the remaining years of the analysis, the city of Zamość noted budget surpluses. In addition, in 2013 and 2015 it was getting longer (it made more expenditures than revenues). As a result, the budget result of the city of Zamość in the years 2013-2015 amounted to around 0% of total revenues, and in 2016 - 2017, respectively at 2.2% - 2.3% of total revenues.

Cash flow

Financial statements of local government units published by the Ministry of Finance are similar to the profit and loss account prepared by business units by the means of their construction. However, by making appropriate transfers of items in these statements, to supplement this methodology, a similar statement to the cash flow statement prepared (direct method) by economic entities may be obtained. As part of the adjustments made, for the purposes of the subject of this analysis, cash flows from operating activities are understood as the difference between inflows (from taxes and local fees, shares in taxes constituting state budget revenues, general subsidies, targeted subsidies for current tasks and other income) and outflows (related to current expenses reduced by the amount of debt servicing). Flows from investing activities are the difference between income from property income, subsidies for investment tasks and privatization of assets, and outflows related to property expenses. In turn, cash flows from financing activities are the difference between inflows from loans and borrowings, issue of securities, repayment of loans granted and other revenues, and outflows from repayment of loans and advances, debt service, loans granted, deposits in banks, buyout of securities and other expenditures. The common (merging) financial statements published by the Minister of Finance, and the methodology for the recognition of cash flows proposed in this analysis is "budget result". In terms of "ministerial" reports, the budget result is the sum of income and expenditure differences as well as revenues and outlays. In terms of this methodology, the budget result is the sum of cash flows from operating, investing and financing activities. The amount of the budget result combines both methodologies of the financial situation of local government units (Jańczuk 2016: 507).

In the city of Zamość in 2013-2017, cash inflows and outflows from operating activities were at a similar level, with a slight majority of inflows. This meant that cash flows from operating activities (understood as the difference between inflows and outflows) were positive throughout the analysis period and fluctuated from PLN 15.2 million in 2013 to PLN 19.9 million in 2017. Cash flows from the operational activity of the city of Zamość are presented in Chart 5.

Chart 5. Cash flows from the operational activity of the city of Zamość in 2013 - 2017 (in PLN thousand)



Source: Own study based on Reports on the implementation of the budget of the city of Zamość for 2013, 2014, 2015, 2016, 2017.

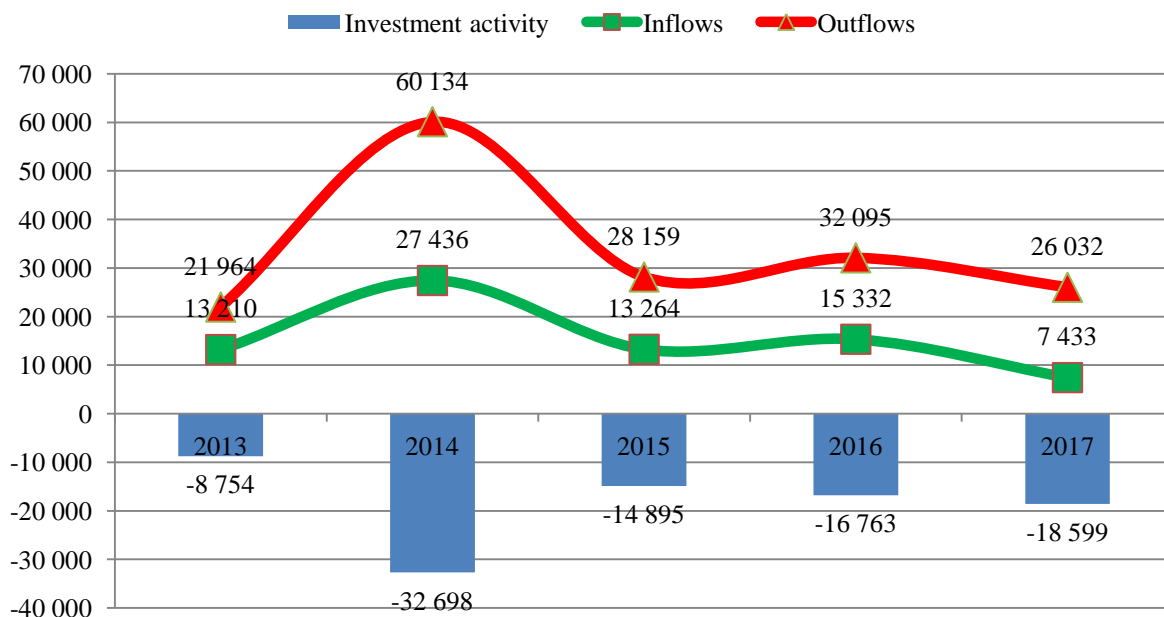
Throughout the analysis period, there was a characteristic relatively high growth rate of inflows and outflows from operating activities of the city of Zamość (from 2017 to 2013 it was 32%). In 2013, they amounted to around PLN 283 million and gradually increased to PLN 374.3 million in 2017. This means that in the analysed period, the city of Zamość gradually increased its operating income, but the current mandatory expenses increased as a result.

The increase in obligatory expenditures resulted mainly from the additional tasks imposed by the legislator on local government units (not always providing adequate sources of their financing). An important element of increasing mandatory current expenditure was the implementation of investment tasks (usually co-financed by the European Union), the effects of which had to be maintained as part of current expenditure. It is worth noting that throughout the analysis period, the cash flows from the operating activity of the city of Zamość did not take any negative values, which meant that the city generated sufficient income to finance the obligatory expenditure. In addition, the positive cash flows from operating activities were the evidence of the financial liquidity of the city of Zamość and set the margin for free internal financing, including they indicated the level of payment equipment reserves that could be used to cover such special expenses as: expenditure on repayment of debt incurred and investment expenditure.

Cash flows from investing activities form the basis for the analysis of financial operations and they result from the purchase or sale of fixed assets of the city and related financial costs and benefits. Cash inflows from investing activities were related to the privatization and restructuring of the city's assets. Cash outflows from investing activities indicated the scale of purchases of fixed assets.

Throughout the analysed period, the city of Zamość recorded negative cash flows from investing activities, which meant that the city gradually increased its fixed assets. The best year in terms of cash flows from investing activities was the year, in which relatively large capital expenditures (described on the occasion of spending analysis) were made. In addition, the largest investment inflows in the entire analysis period were recorded, which was connected with the sale of a part of the Zamość estate. In 2017, the process of privatization and restructuring of the assets of city was halted, which actually lasted from 2014. After 2013, this process has slowed down. The cash flows from the investment activity of the city of Zamość are presented in Chart 6.

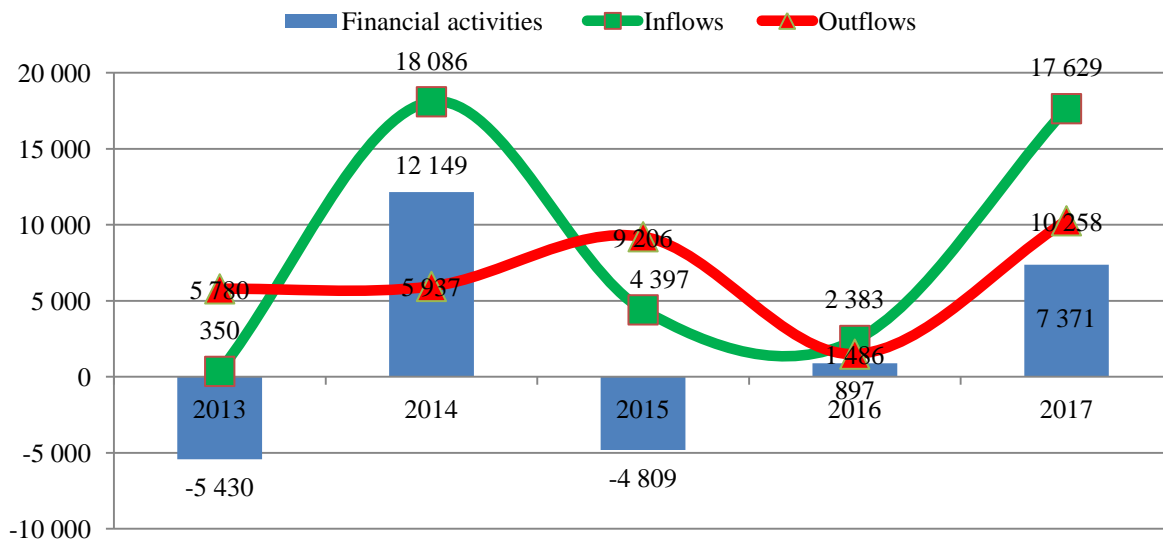
Chart 6. The cash flows from the investment activity of the city of Zamość in 2013 - 2017 (in PLN thousand)



Source: Own study based on Reports on the implementation of the budget of the city of Zamość for 2013, 2014, 2015, 2016, 2017.

Financing of cash flows from investing activities during the analysis period at the average annual level of PLN 18.3 million would be possible only from cash flows from operating activities (annual average in the analysis period PLN 19.9 million). The exception was 2014, in which the city of Zamość would not be able to finance investment expenditures only from operating activities without using repayable funds. However, the city of Zamość (with the exception of 2013 and 2015 additionally made use of returnable funds.) In 2013 and in 2015, the city of Zamość grew (negative flows from financial activities), however, in the remaining years of the analysis the city's debt was increased. Cash flows from the financial activities of the city of Zamość in 2013 - 2017 are presented in Chart 7.

Chart 7. Cash flows from the financial activities of the city of Zamość in 2013 - 2017 (in PLN thousand)

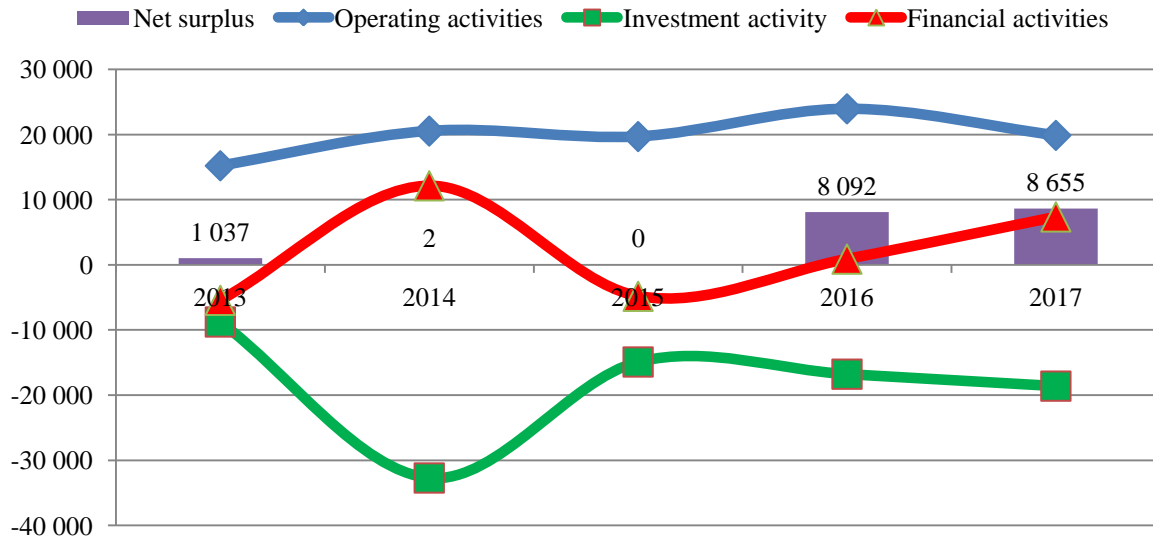


Source: Own study based on Reports on the implementation of the budget of the city of Zamość for 2013, 2014, 2015, 2016, 2017.

The analysis of individual groups of cash flow streams does not allow for a synthetic assessment of the finances of the city of Zamość during the considered period. A synthetic assessment of the finances of Zamość should be a summary of cash flows from individual types of operations. The sum of cash flows from operating, investing and financing activities is the net cash flow. The net cash flow cannot take negative values, because investment tasks cannot be realized without proper sources of financing them (operating activity and / or financial activity).

Net cash flows along with cash flows from particular types of activity of the city of Zamość are presented in Chart 8.

Chart 8. Net cash flows of the city of Zamość in 2013 - 2017 (in PLN thousand)



Source: Own study based on: Reports on the implementation of the budget of the city of Zamość for 2013, 2014, 2015, 2016, 2017

The net cash flow of the city of Zamość in the analysed period fluctuated from zero in 2015 to PLN 8.7 million in 2017. In the entire analysis period, the net cash flow amounted to PLN 17.8 million. The higher than average accumulation of net flows in 2016-2017 will probably be aimed at achieving growing investment expenses in the following years. In addition, net cash flows (except for the years 2014-2015 provided for the financial liquidity of the city of Zamość at the turn of individual budget years (part of the tasks must be financed by the city from the beginning of January, while income affects with a certain time delay).

2. Analysis of basic financial indicators

Financial liquidity of the city of Zamość

From a formal point of view, a local government unit (LGU) cannot go bankrupt, but there are often situations, when there is a significant difference in time between the date, when the debt becomes due, and the date of its settlement. LGUs as a result of loss of liquidity, like entrepreneurs, have problems with timely payment of their obligations. That is why it is also

very important for LGU to maintain financial liquidity, especially that for many of them it is a fundamental problem (Filipiak 2014: 35).

The financial liquidity of LGUs can be defined as a state in which, at a given moment, local government units have sufficient funds to cover necessary, planned expenses and outlays. Liquidity is maintained when there is a proper symmetry of income and revenues as well as expenditures and outlays (Kosek-Wojnar & Surówka 2007). This requires precise combining of the collection and spending dates. LGs cannot increase their income by increasing taxes immediately, but they can, however, improve their collectability (in order to obtain cash). They can also take out loans (both on the financial and merchant market).

The financial liquidity in local government units cannot be measured by standard methods, as on December 31 each LGU is able to cover its liabilities, and the use of cash accounting means that all budget lines will be executed (Piekunko-Mantiuk 2008). However, the budget shown at the end of the year does not illustrate what is going on during the year. LGUs finance their activities mainly from earned income, and receivables and liabilities operate in a specific way, hence the assessment of financial liquidity will not be measured by current assets (as in the standard liquidity measurement formulas), but the inflow of funds that this property generates (Kosek-Wojnar & Wojnar 2005: 48). During the year, when there may be temporary surpluses and shortages of funds, liquidity can be calculated using the formula:

Formula 1. Financial liquidity of local government units

$$CR = \frac{\text{budget revenues} + \text{budget revenues (realized at a given moment)}}{\text{budget expenses} + \text{budget expenditures (realized at a given moment)}}$$

The CR indicator means the ability to meet commitments on time and the actual financial coverage of those expenses whose payment date has already passed. If both indicators are below 1.0, this means that the LGU budget has become ineffective, and consequently the risk of losing the ability to finance current operations. It will undermine among others the credibility of LGs as a debtor, it will make incur additional financial costs in the form of, for example, contractual penalties, interest for late payment, as well as will result in difficulties in obtaining a bank loan.

To sum up, it can be assumed that good financial standing of LGUs will occur when the CR ratio is at the level of 1.5-2.0, which means that there are no difficulties in regulating the

current liabilities of LGU (Kosek-Wojnar & Wojnar 2005: 49). Similarly to other units, the indicator at the level exceeding 3.0 speaks of LGU surplus, which may indicate that the local government does not carry out the tasks assigned to it and inefficiently uses the funds possessed, and the income flows irregularly. The financial liquidity ratio in the city of Zamość is presented in Table 1.

Table 1. The value of the financial liquidity ratio of the city of Zamość in 2013 – 2017

	2013	2014	2015	2016	2017
CR	1.00	1.00	1.00	1.02	1.02

Source: Own calculations based on template 2 and reports on the implementation of the budget of the city of Zamość for the years: 2013, 2014, 2015, 2016, 2017

The values of the financial liquidity index of the city of Zamość in the analyzed state inform that the city was balancing on the verge of losing financial liquidity. This is also confirmed by the data contained in charts 4 and 8. This was a quite specific situation, especially since the city of Zamość did not fully use its financial potential to carry out optional investment tasks, co-financing them with returnable financial resources. All the more that since 2014, new legal regulations concerning the limits of incurring financial liabilities have been in force, consisting in the introduction of the Individual Debt Index (Dz. U. 2009, No. 157, item 1240, art. 243).

The debt of the city of Zamość

According to the Public Finance Act, the body constituting the territorial self-government unit may adopt a budget whose implementation will cause that in the budgetary year and each year following the budget year the relation of the total repayment amount (...) to the planned total budget revenue will exceed the arithmetic average calculated for the last three years of the relation of current income increased by income from the sale of assets and diminished by current expenses to the total budget income. The individual debt ratio is shown in the formula 2.

Formula 2. Individual debt ratio and in each year following the budget year the relation of the total repayment amount (...) to the planned total budget revenue will exceed the arithmetic average of the current account receivable for the last three years, increased by income from the

sale of assets and less expenses current to total budget revenues. The individual debt ratio is shown in the Formula 2.

Formula 2. Individual debt ratio

$$\frac{(R+O)}{D} \leq \frac{1}{3} \left(\frac{(Db_{n-1} + Sm_{n-1} - Wb_{n-1})}{D_{n-1}} + \frac{(Db_{n-2} + Sm_{n-2} - Wb_{n-2})}{D_{n-2}} + \frac{(Db_{n-3} + Sm_{n-3} - Wb_{n-3})}{D_{n-3}} \right)$$

where:

R - total amount due for repayment of loan and loan instalments and securities buy-outs for financing the planned budget deficit, repayment of earlier contracted liabilities, pre-financing of activities financed from funds from the EU budget, as well as financing of investment projects

O - interest on loans and credits contracted for the budget year to cover the transitional budget deficit in the course of the year, financing the planned budget deficit, repayment of earlier liabilities, pre-financing of activities financed from the EU budget and financing of investment projects, interest and discount on securities issued for these purposes and repayment of amounts resulting from granted sureties and guarantees

D - total budget revenue in a given budget year

Db - current income

Sm - income from the sale of property

Wb - current expenditure

n - the financial year on which the relationship is determined

n-1 - the year preceding the budget year on which the relationship is established

n-2 - the year preceding the budget year by two years

n-3 - the year preceding the financial year by three years.

Source: (Dz. U. 2009, No. 157, item 1240, art. 243).

Individual debt ratio for the city of Zamość for 2016 (calculated on the basis of the arithmetic average for 2013-2015) and for 2017 (calculated on the basis of the arithmetic average for 2014-2016) are presented in Table 2.

Table 2. Individual debt ratio of the city of Zamość

2016		2017	
0,4%	< 11,4%	2,7%	< 11,8%

Source: Own calculations based on template 2 and reports on the implementation of the budget of the city of Zamość for the years: 2013, 2014, 2015, 2016, 2017

The indicator $(R + O) / D$ in 2016 for the city of Zamość was smaller than the arithmetic average calculated for the last three years referred to in art. 243 of the Public Finance Act by 11%, and in 2017 by 9.1%. The relatively large difference between the permissible and actual

indebtedness of the city of Zamość was evidence of incomplete utilization of the city's potential in the implementation of pro-development investment tasks with the use of repayable funds.

Assessment of financing possibilities for the development of the city of Zamość

The attractiveness of local government units can be defined as the ability to create development, which in turn requires the authorities to systematically incur financial expenses, especially for tasks other than obligatory ones. The indicators that measure the attractiveness of local government units from the point of view of the possibility of financing development are (Dylewski et al. 2010: 116):

Formula 3. Operational development ability indicator (WOZR)

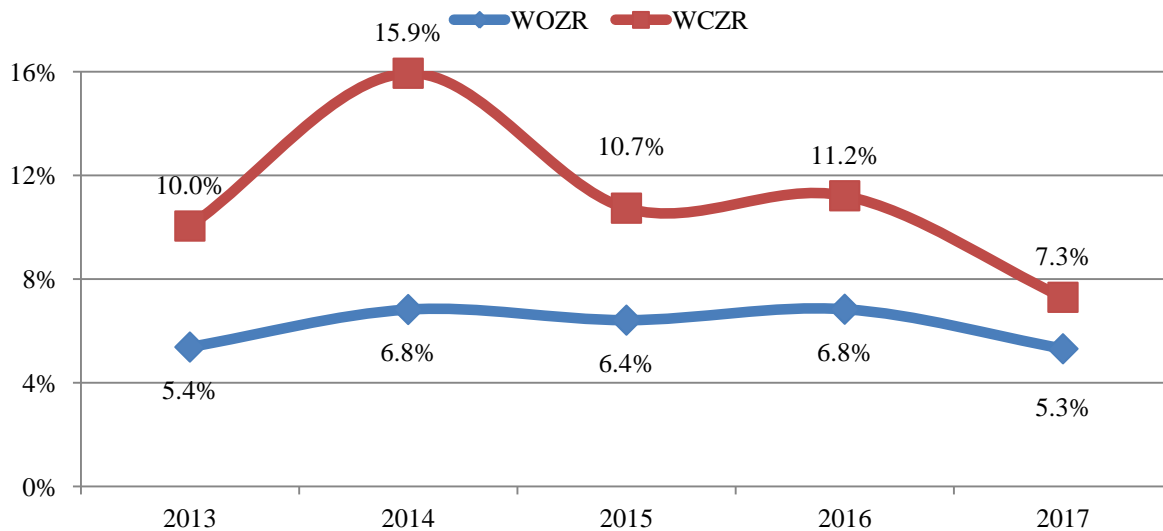
$$\text{WOZR} = \frac{\text{current income} - \text{current expenditure}}{\text{current income}}$$

Formula 4. Total development ability index (WCZR)

$$\text{WCZR} = \frac{\text{current income} - \text{current expenditure} + \text{property income}}{\text{current income}}$$

The information content of the indicators shows the actual possibilities of financing expenditures related to the development of a given local government unit on the basis of the possibility of obtaining surplus of free financial resources.

The WOZR indicator does not include property income, so it can be used for projection of repetitive expenditure, while the WCZR indicator includes property incomes that are incidental. Both indicators illustrate the ability to finance new tasks, usually having pro-development character, taking into account the incurring of obligatory expenditures. These indicators also serve well for comparisons in time and space. Operational (WOZR) and total (WCZR) indicators of the development capacity of the city of Zamość are presented in the Chart 8.

Chart 8. Indices of WOZR and WCZR of the city of Zamość in 2013 – 2017

Source: Own calculations based on formulas 3 and 4 and reports on the implementation of the budget of the city of Zamość for the years: 2013, 2014, 2015, 2016, 2017

A comparison of the WOZR and WCZR indexes in dynamic terms (in particular years) enables the identification of the trend characteristic for the city of Zamość. In the analysed period, the financing possibilities (operational) of the development of the city of Zamość oscillated around 6.2% of its current revenues. Including income from property that is incidental and limited, in the analysed period the total development capacity of the city of Zamość decreased (from 15.9% in 2015 to 7.3% in 2017).

Conclusion

The results of the presented research (especially the analysis of liquidity and indebtedness) provide the information necessary to select the options regarding, among others, obtaining debt instruments to finance the implementation of tasks (current and investment), while measures of development financing have an important cognitive value mainly for the local community and members of the governing and executive bodies. Determining the real possibilities of establishing and creating income and the freedom to spend them, makes one aware of the actual scope of decisions that Zamość municipal authorities can make in terms of income and expenditure. Awareness of the actual level of financial independence may in turn be helpful in the effective disposition of public funds, including those of a reflexive nature.

The city of Zamość did not make full use of its financial potential in the implementation of pro-development investments during the period under consideration. The incurred financial liabilities were mainly used to co-finance investment projects based on non-returnable financial resources of the European Union. It is worth emphasizing that this type of liability is not included in the individual debt ratio. The implementation of investment tasks co-financed that the European Union funds were more consistent with the tasks for which EU co-financing was provided than in the real needs of the city in this respect.

The results of the conducted research induce a postulate that the executive and executive bodies of the city of Zamość should consider the possibility of identifying developmental tasks, which would significantly affect the development of not only the economic, but above all socio-economic cities. In addition, these tasks should not increase current expenses in the future, related to the need to maintain investment effects and should contribute to the growth of the local tax base of the city. In order to meet these challenges, we should consider better utilization of the city's financial potential, also based on returnable funds.

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