


ANALYSIS OF REGIONAL FINANCIAL CONDITIONS IN LOCAL GOVERNMENTS OF ENREKANG REGENCY, SOUTH SULAWESI PROVINCE, INDONESIA

Nirwana^A, Rahmawati Haji Seseang^B, Aida Salsabila^C



ARTICLE INFO	ABSTRACT
<p>Article history:</p> <p>Received 20 January 2023</p> <p>Accepted 14 March 2023</p>	<p>Purpose: The aim of this study was to examine the local financial condition of Enrekang Regency for the 2015-2019 fiscal year as an overview of the ability and success of local governments in managing their own local finances.</p>
<p>Keywords:</p> <p>Financial Condition, Financial Management, Local Government.</p>	<p>Theoretical framework: The Regional financial condition is the ability of a local government to fulfill its obligations to anticipate unexpected events, as well as to execute their financial rights effectively and efficiently (Ritonga, 2014). The measurements carried out in this study are based on the dimensions of condition measurement proposed by Ritonga 2014, namely short-term solvency, budget solvency, long-term solvency, financial flexibility, financial independence, and service level solvency.</p>
	<p>Design/methodology/approach: The method used in this research is the descriptive method with a quantitative approach. The data used is secondary data sourced from the Local Government Financial Report Examination Results of Enrekang Regency for the 2015-2019 fiscal year, obtained from the Information and Documentation Management Officer.</p>
	<p>Findings: The results of this study are the financial management in Enrekang Regency is quite good so as to produce a fairly good financial condition as well. Enrekang Regency has a good financial condition in terms of short-term dimensions, budget solvency, financial flexibility and service level solvency. Meanwhile, the regional financial condition of Enrekang Regency is still not good in terms of regional financial independence due to the low local revenue. The regional government still relies heavily on funding sources from outside or relies on transfer funds from the central government.</p>
	<p>Research, Practical & Social implications: The results of this study are useful as a source of information in making decisions for the local government of Enrekang district and related parties, especially in making policies related to governance, especially in effective, efficient and economical financial management.</p>
	<p>Originality/value: The value of this research is very useful for the local government as a guide in assessing the condition of government financial health.</p>
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^A Doctoral Degree in Accounting. Accounting Department, Faculty of Economics and Business, Universitas Hasanuddin, Makassar, Indonesia. E-mail: nirwana_ni@yahoo.com
Orcid: <https://orcid.org/0000-0001-8608-9517>

^B Master's Degree in Accounting. Accounting Department, Faculty of Economics and Business, Universitas Hasanuddin, Makassar, Indonesia. E-mail: rahmawatihs@unhas.ac.id
Orcid: <https://orcid.org/0000-0002-1457-7914>

^C Bachelor's Degree in Accounting. Accounting Department, Faculty of Economics and Business, Universitas Hasanuddin, Makassar, Indonesia. E-mail: aidasalsabila.akuntansi@gmail.com
Orcid: <https://orcid.org/0000-0002-1457-7914>

ANÁLISE DAS CONDIÇÕES FINANCEIRAS REGIONAIS EM GOVERNOS LOCAIS DE ENREKANG REGENCY, PROVÍNCIA DE SOUTH SULAWESI, INDONÉSIA

RESUMO

Objetivo: O objetivo deste estudo era examinar a condição financeira local da Enrekang Regency para o ano fiscal de 2015-2019 como uma visão geral da capacidade e sucesso dos governos locais na administração de suas próprias finanças locais.

Estrutura teórica: A condição financeira regional é a capacidade de um governo local de cumprir suas obrigações de antecipar eventos inesperados, bem como de executar seus direitos financeiros de forma eficaz e eficiente (Ritonga, 2014). As medições realizadas neste estudo se baseiam nas dimensões de medição de condições propostas pela Ritonga 2014, a saber, solvência de curto prazo, solvência orçamentária, solvência de longo prazo, flexibilidade financeira, independência financeira e solvência de nível de serviço.

Design/metodologia/abordagem: O método utilizado nesta pesquisa é o método descritivo com uma abordagem quantitativa. Os dados utilizados são dados secundários provenientes do Relatório Financeiro do Governo Local Resultados do Exame da Enrekang Regency para o ano fiscal de 2015-2019, obtidos junto ao Diretor de Gerenciamento de Informação e Documentação.

Resultados: Os resultados deste estudo são que a gestão financeira da Enrekang Regency é bastante boa para produzir também uma condição financeira bastante boa. A Enrekang Regency tem uma boa condição financeira em termos de dimensões de curto prazo, solvência orçamentária, flexibilidade financeira e solvência de nível de serviço. Enquanto isso, a condição financeira regional da Enrekang Regency ainda não é boa em termos de independência financeira regional devido à baixa receita local. O governo regional ainda depende fortemente de fontes externas de financiamento ou depende de fundos de transferência do governo central.

Pesquisa, implicações práticas e sociais: Os resultados deste estudo são úteis como fonte de informação na tomada de decisões para o governo local do distrito de Enrekang e partidos relacionados, especialmente na elaboração de políticas relacionadas à governança, especialmente na gestão financeira eficaz, eficiente e econômica.

Originalidade/valor: O valor desta pesquisa é muito útil para o governo local como um guia para avaliar a condição da saúde financeira do governo.

Palavras-chave: Condição Financeira, Administração Financeira, Governo Local.

ANÁLISIS DE LAS CONDICIONES FINANCIERAS REGIONALES EN LOS GOBIERNOS LOCALES DE LA REGENCIA DE ENREKANG, PROVINCIA DE SULAWESI DEL SUR, INDONESIA

RESUMEN

Propósito: El objetivo de este estudio fue examinar la condición financiera local de la Regencia de Enrekang para el año fiscal 2015-2019 como una visión general de la capacidad y el éxito de los gobiernos locales en la gestión de sus propias finanzas locales.

Marco teórico: La condición financiera Regional es la capacidad de un gobierno local para cumplir con sus obligaciones de anticiparse a los acontecimientos inesperados, así como para ejecutar sus derechos financieros con eficacia y eficiencia (Ritonga, 2014). Las mediciones realizadas en este estudio se basan en las dimensiones de medición de la condición propuestas por Ritonga 2014, a saber, solvencia a corto plazo, solvencia presupuestaria, solvencia a largo plazo, flexibilidad financiera, independencia financiera y solvencia del nivel de servicio.

Diseño/metodología/enfoque: El método utilizado en esta investigación es el método descriptivo con un enfoque cuantitativo. Los datos utilizados son datos secundarios procedentes de los resultados del examen del informe financiero del gobierno local de la regencia de Enrekang para el ejercicio fiscal 2015-2019, obtenidos del responsable de la gestión de la información y la documentación.

Resultados: Los resultados de este estudio son que la gestión financiera en la Regencia de Enrekang es bastante buena, por lo que la situación financiera también es bastante buena. La Regencia de Enrekang tiene una buena situación financiera en términos de dimensiones a corto plazo, solvencia presupuestaria, flexibilidad financiera y solvencia a nivel de servicios. Mientras tanto, la condición financiera regional de la Regencia de Enrekang todavía no es buena en términos de independencia financiera regional debido a los bajos ingresos locales. El gobierno regional sigue dependiendo en gran medida de fuentes de financiación externas o depende de las transferencias de fondos del gobierno central.

Investigación, implicaciones prácticas y sociales: Los resultados de este estudio son útiles como fuente de información en la toma de decisiones para el gobierno local del distrito de Enrekang y las partes relacionadas, especialmente en la elaboración de políticas relacionadas con la gobernanza, especialmente en la gestión financiera eficaz, eficiente y económica.

Originalidad/valor: El valor de esta investigación es muy útil para el gobierno local como guía en la evaluación de la condición de la salud financiera del gobierno.

Palabras clave: Condición Financiera, Gestión Financiera, Gobierno Local.

INTRODUCTION

Since 1999, the Indonesian government has been implemented regional government autonomy, resulting in not only the transfer of administrative power from the central government to the regions, but also the delegation of fiscal authority (Ritonga et al. 2012; Rusmin et al., 2014). However, the good intentions of Indonesia's decentralization policy do not mean that its implementation is without problems.

Assessing the financial condition of local governments should be a good indicator of the impact of decentralization on local government performance (Cohen et al, 2012; Arif & Maksum, 2017). Decentralization can increase the dependence of local governments on the central government in terms of financing their functions, so this needs to be a concern because it is contrary to one of the goals of decentralization, namely strengthening financial independence (Perawattyautami, 2010). 2013; Hasthoro, 2016; Sijabat, 2016).

In implementing regional autonomy and fiscal decentralization, regional governments are required to have greater regional financial independence. With a greater level of financial independence, the regions will no longer be very dependent on assistance from the central and provincial governments through balancing funds. However, this does not mean that if the region's financial independence is high, the region no longer needs balancing funds. Balance funds are still needed to accelerate regional development. As we know, not many regions are able to optimally manage the potential of various types of regional income, so that they can actually and gradually realize regional financial independence.

In the area of regional finance, a common phenomenon faced by most local governments in Indonesia is the relatively small contribution of PAD (Regional Original Revenue) in the APBD structure. Ideally, PAD becomes the main source of regional income, because other sources of income can fluctuate and tend to be outside the control or authority of the region. Among the three income groups, it can be seen that that the Balancing Fund experienced the highest increase, then Other Legitimate Regional Revenue, and finally Regional Original Income. The balancing fund unwittingly makes local governments dependent and less innovative, resulting in low awareness of their financial condition because the thought arises

that their financial needs will still be fulfilled periodically. Monitoring the condition of financial health has become a matter of less priority by the Regional Government. It is very important for local governments as the main providers of public services to have adequate knowledge and understanding of the financial condition of local governments. To address this issue, the government has maintained its authority by promoting money generation, providing amenities to improve life quality, and carrying out initiatives to instill morals in the underprivileged (Hussin and Aziz, 2021).

The rate of economic growth is a key indicator of the level of progress that a nation has made in its development. To phrase this another way, having a high rate of economic growth contributes to the resolution of some macroeconomic issues, such as poverty, unemployment, and income inequality (Al_kasasbeh, et.al 2022). The government of a region can provide good service to its people if its financial condition is good. On the other hand, in poor regional financial conditions, local governments can certainly not be able to provide good and adequate public services to their people (Murmana, 2017). Honadle and Jones (1998) argue that if local governments fail to meet their financial obligations, the regional economy can be negatively affected. Therefore, in Indonesia, the need for information on the financial condition of local governments has increased since financial decentralization (Ritonga, 2014).

Financial condition refers to the ability of local governments to ensure that local government revenues are balanced with expenditures, without affecting the delivery of public services. Kim & Ryu (2017) revealed that financial condition covers a wide dimension, so it is very complex to understand. However, it is very important to understand that financial condition and financial health are often used interchangeably (Ramsey, 2013; Kaldani et al, 2016).

Kloha et al (2005) define financial condition as a condition in which the local government is unable to meet standards in operations, debt and community needs for several consecutive years. Jones & Walker (2007) interpret fiscal distress as an inability to maintain a pre-existing level of service to society. Kloha et al (2005) and Jones & Walker (2007) define financial condition in the context of fiscal difficulties. Meanwhile, Hendrick (2004) defines financial condition in the context of fiscal health, where he defines financial condition as the ability of local governments to fulfill financial obligations and services to the community.

Financial condition is the most widely used terminology (Casal et al, 2014). The definition of financial condition is the ability of local governments to meet financial obligations in a timely manner, while providing services to stakeholders (Ritonga et al, 2012). Furthermore,

Kamnikar et al (2006) developed a definition of financial condition based on the International City/Country Management Association (ICMA), namely as the ability of local governments to meet their maturing obligations and the ability to continue to provide services needed by their constituents. Rivenberg et al (2010) define financial condition as the ability of local governments to meet sustainable financial, service and capital obligations based on the status of resource flows and stock which are interpreted from annual financial reports. Kamnikar et al (2006) and Rivenberg et al (2010) define financial condition based on two reasons, namely why financial statements are prepared and what the purpose of financial reporting's.

Basically, financial condition is the ability of local governments to finance their services in a sustainable manner. Namely the ability to: (1) maintain the existing level of service; (2) survive the disruption of the local and regional economy; and (3) meet the demands of natural growth, decline, and change (Suryani, 2016).

Wang et al (2007) define financial condition like the human body which is interconnected with multidimensional concepts and financial dimensions that are interrelated with each other. During the process of providing goods and services, an organization is subject to financial obligations in the form of fees, expenses, or debts. All these obligations must be paid sooner or later. If the organization can pay these obligations without incurring much financial difficulties, then it can be said that the organization's ability to pay is high and the organization is in good financial condition.

Periodic monitoring of financial health is mandatory to establish an early warning system for local governments against various possibilities in the future, both from a macroeconomic and socio-political perspective (Maizunati, 2017). An analysis of the financial condition of the local government also needs to be carried out to see the extent of the level of financial health of the local government.

RESEARCH METHODOLOGY

This study uses a research design with a descriptive method with a quantitative approach. The source of data in this study is secondary data in the form of LHP LKPD (Local Government Financial Report Examination Results) Enrekang Regency which has been audited by the South Sulawesi BPK (Financial Audit Agency) for the 2015-2019 fiscal year. The data obtained comes from data published by the Supreme Audit Board through the official website of the PPID (Information Management and Documentation Officer). The author uses secondary data with the consideration that the data has data validity guaranteed by other parties, so it is

reliable to be used in research.

In this study, the authors measure the financial condition of the region. Regional financial condition is the ability of a local government to fulfill its obligations to anticipate unexpected events, as well as to execute their financial rights effectively and efficiently (Ritonga, 2014). The measurements carried out in this study are based on the dimensions of condition measurement proposed by Ritonga 2014, namely short-term solvency, budget solvency, long-term solvency, financial flexibility, financial independence, and service level solvency. Analysis of the data used is descriptive quantitative that is doing calculations on the financial data obtained in solving existing problems in accordance with the objectives of the study.

a. Short-Term Solvency

Short-term solvency is the ability of local governments to meet financial obligations that mature within 30 to 60 days (Nollenberger et al, 2003 in Ritonga, 2014). This indicator is calculated based on 3 ratios, namely:

Ratio A = $(\text{Cash} + \text{Cash Equivalents} + \text{Short-Term Investments}) / \text{Current Liabilities}$

Ratio B = $(\text{Cash} + \text{Cash Equivalents} + \text{Short-Term Investments} + \text{Receivables}) / \text{Current Liabilities}$

Ratio C = $\text{Current Assets} / \text{Current Liabilities}$

b. Budget Solvency

Budget solvency is the financial capacity of the regional government in fulfilling its operational obligations (Ritonga, 2014). This indicator is calculated based on 4 ratios, namely:

Ratio A = $(\text{Total Revenue} - \text{DAK Revenue}) / (\text{Total Expenditure} - \text{Capital Expenditure})$

Ratio B = $(\text{Total Revenue} - \text{DAK Revenue}) / \text{Operational Expenditure}$

Ratio C = $(\text{Total Income} - \text{DAK Revenue}) / \text{Employee Expenditure}$

Ratio D = $\text{Total Income} / \text{Total Expenditure}$

c. Long-Term Solvency

Long-term solvency indicates the ability of local governments to meet their long-term obligations (Nollenberger et al., 2003). The formula for long-term solvency is as follows:

Ratio A = $\text{Long-Term Liabilities} / \text{Total Assets}$,

Ratio B = $\text{Long-Term Liabilities} / \text{Investment Equity}$,

Ratio C = $\text{Investment Equity} / \text{Total Assets}$.

d. Financial flexibility

Financial flexibility is the ability of local governments to deal with unexpected events in the future (Ritonga, 2014). This indicator is calculated based on 4 ratios, namely:

Ratio A = $(\text{Total Income} - \text{DAK} - \text{Employee Expenditure}) / (\text{Principal Payment} + \text{Interest Expenditure})$

Ratio B = $(\text{Total Income} - \text{DAK} - \text{Employee Expenditure}) / \text{Total Liabilities}$

Ratio C = $(\text{Total Income} - \text{DAK} - \text{Employee Expenditure}) / \text{Long-Term Liabilities}$

Ratio D = $(\text{Total Revenue} - \text{DAK}) / \text{Total Liabilities}$

e. Financial Independence

Financial independence shows the ability of local governments to execute their financial rights effectively and efficiently (Ritonga, 2014). This indicator is calculated based on 2 ratios, namely: Ratio A = $\text{Total PAD} / \text{Total Income}$

Ratio B = $\text{Total PAD} / \text{Total Expenditure}$

f. Service Level Solvency

Service level solvency shows the financial capacity of local governments in providing and maintaining the quality of public services needed and desired by the community (Wang et al, 2007 in Ritonga, 2014). This indicator is calculated based on 5 ratios, namely:

Ratio A = $\text{Total Equity} / \text{Total Population}$,

Ratio B = $\text{Total Assets} / \text{Total Population}$,

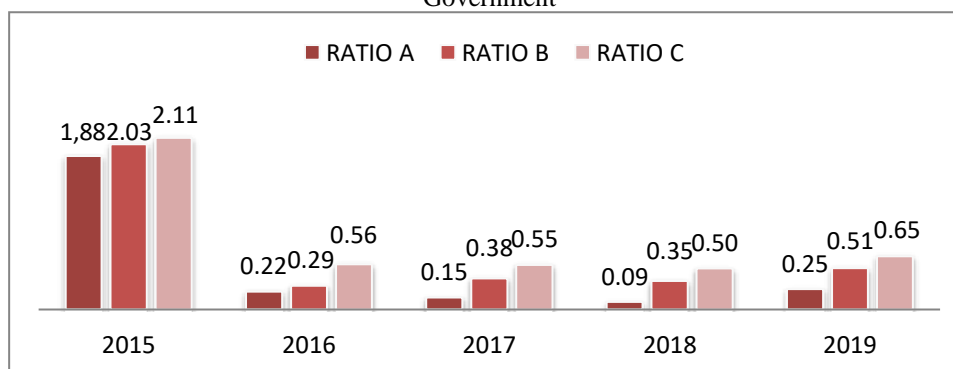
Ratio C = $\text{Total Expenditure} / \text{Total Population}$.

RESULTS AND DISCUSSION

Dimensions of Short-Term Solvency

Financial information of local government obligations that will mature within one year is shown in the statement of financial position, while local government resources available and intended to be used within one year are described in the current assets section of the financial statements. Calculation Results The short-term solvency dimension of the regional finances of Enrekang Regency during 2015-2019 had a downward trend, especially in 2016 due to the decline in the value of cash and cash equivalents and current assets.

Figure 1. The Result of Calculation of the Dimensions of the Short-Term Solvency of the Enrekang Regency Government



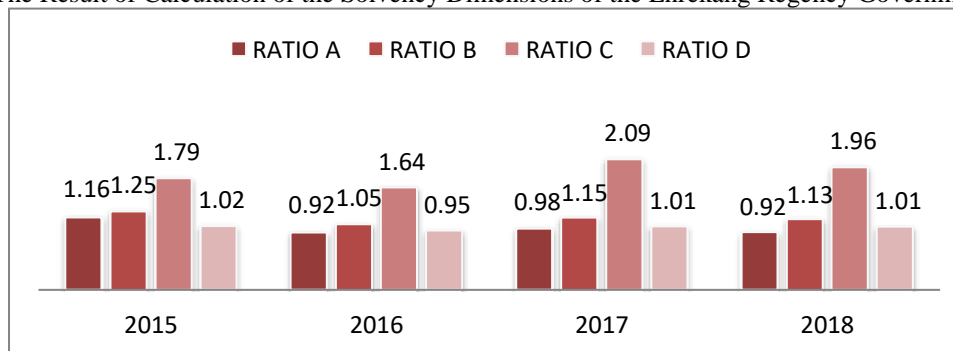
Source: Prepared by the authors (2022)

In conclusion, from the results of the ratio analysis, the government of Enrekang Regency has been able to cover its short-term obligations. In trend, the short-term solvency of Enrekang Regency has a downward trend. Especially in 2016 the solvency of the short-term liabilities of the Enrekang Regency Government decreased significantly due to a decrease in current assets in the form of cash and cash equivalents to pay off its short-term obligations. In theory, the higher the value of the short-term solvency ratio, the better the short-term solvency, but if the ratio values are too high, it means that the local government has excessive current assets. In 2015 it means that the local government of Enrekang Regency has too much current assets to cover its short-term obligations, thus causing assets not to be optimized to provide service to the community.

Dimensions of Budget Solvency

Budget solvency indicates the ability of local governments to generate revenue to cover operations during the fiscal budget period (Nollenberger et al., 2003). The higher the ratio, the better the local government's ability to have sufficient income to cover operational expenses.

Figure 2. The Result of Calculation of the Solvency Dimensions of the Enrekang Regency Government's Budget



Source: Prepared by the authors (2022)

Based on the picture, it can be seen that the results of the calculation of the ratios on the solvency dimension of the budget of the Enrekang Regency Government tend to be stable, which indicates that the Enrekang Regency Government has sufficient regional income to finance its operational activities every year. In other words, the local government of Enrekang Regency is also able to balance its revenue and operational expenditure. Based on Figure 2, it can be seen that the results of the calculation of the ratios on the solvency dimension of the budget of the Enrekang Regency Government tend to be stable, which indicates that the Enrekang Regency Government has sufficient regional income to finance its operational activities every year. In other words, the local government of Enrekang Regency is also able to balance its revenue and operational expenditure.

Dimensions of Long-Term Solvency

Long-term solvency shows the ability of local governments to meet their long-term obligations. This dimension shows the sustainability of a local government. Long-term obligations can only be met by local governments if they have adequate assets that are financed from their own resources. The greater the ratio values, the greater the ability of the local government to meet its long-term obligations.

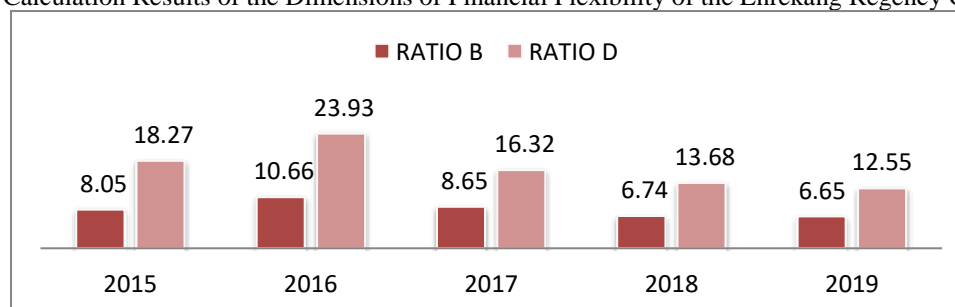
All ratios on the long-term solvency dimension for Enrekang Regency in this study cannot be calculated, because Enrekang Regency does not have long-term obligations during the 2015-2019 period. So the author cannot draw conclusions for the analysis of the financial condition of the Enrekang Regency government in terms of the long-term solvency dimension.

Dimensions of Financial Flexibility

Financial flexibility is the condition that local governments can increase financial

resources to respond to increased commitments or cope with unexpected events in the future, either through increasing revenues or increasing debt capacity. The higher values of these four ratios indicate a higher level of flexibility for local governments to deal with extraordinary events, which can come from internal or external sources from local government organizations. Therefore, an increase in the value of this ratio indicates an increase in the quality of financial flexibility.

Figure 3. Calculation Results of the Dimensions of Financial Flexibility of the Enrekang Regency Government



Source: Prepared by the authors (2022)

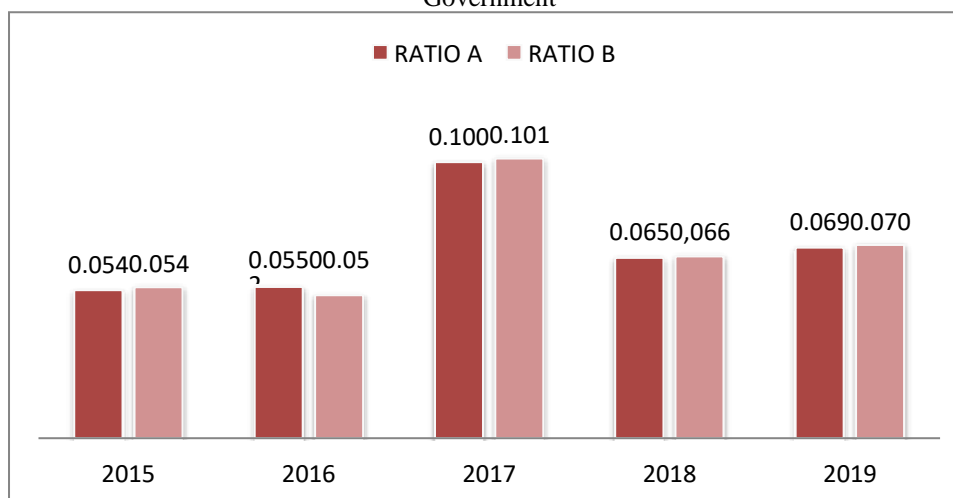
Based on the figure, it can be seen that the results of the calculation of the financial flexibility of the Enrekang Regency Government have a downward trend. The decline occurred because the Enrekang Regency Government had a fairly large total liability and increased from previous years, meaning that the Enrekang Regency government experienced a decrease in the quality of financial flexibility due to the increasing growth of its obligations.

As explained in CALK (Notes to Financial Statements), the government of Enrekang Regency has budgeted for unexpected expenditures to anticipate unexpected events. Unexpected Expenditures are expenditures paid by the Enrekang Regency Government for activities that are unusual in nature and are not expected to be repeated. These expenditures are expenditures issued to help people affected by natural disasters and social disasters.

Dimensions of Financial Independence

Financial independence is a condition in which local governments are not vulnerable to sources of funding beyond their control or influence, both from national and international sources. The lower the value of this ratio indicates the less financial independence of the local government's financial condition. Thus, the greater the value of the two ratios, the greater the contribution of local revenue in funding local government activities, thus the greater the value of the ratio, the better the financial independence of the local government.

Figure 4. The Result of Calculation of the Dimensions of Financial Independence of the Enrekang Regency Government



Source: Prepared by the authors (2022)

Based on the picture, it can be seen that the regional financial independence of Enrekang Regency tends to go up and down. In other words, it can be said that the local government of Enrekang Regency is very dependent on external sources of funding or transfer funds. Based on these ratios, it is concluded that local governments have weak financial independence.

Service Level Solvency Dimensions

Service level solvency is the ability of local governments to provide and maintain the level of public services needed and desired by the community (Wang et al, 2007). The value of total assets or total equity is an appropriate number to represent its objectives. The higher the ratio of the total asset value to the population, the better the local government in providing public services to its people.

Table 1. The Result of Calculation of the Solvency Dimensions of the Enrekang Regency Government Service Level

Year	RATIO A	RATIO B	RATIO C
2015	8,633,594	8,838,098	4.515.596
2016	8,303.971	8,463,240	5,412,995
2017	8,629,358	8,866.484	4,857.368
2018	8,805,977	9,086.217	4,913,833
2019	8,944,491	9,277,740	5,095.459

Source: Prepared by the authors (2022)

The first ratio of service dimension is ratio A. Ratio A is the result of comparison between total equity and total population. Total equity is the net assets owned by local

governments to provide services to the community (Ritonga, 2014). The higher the value of this ratio, the better the local government in providing public services to the community.

Looking at the trend of the service level solvency ratio as shown in Figure 4, all ratios show an increasing trend. This condition means that there has been an increase in the delivery of services to the community from 2015 to 2019. The solvency value of services is recommended to continue to increase from year to year to indicate an increase in providing services to the community.

CONCLUSION

In general, the financial management in Enrekang Regency is quite good so as to produce a fairly good financial condition as well. Enrekang Regency has a good financial condition in terms of short-term dimensions, budget solvency, financial flexibility and service level solvency. Meanwhile, the regional financial condition of Enrekang Regency is still not good in terms of regional financial independence due to the low local revenue. The regional government still relies heavily on funding sources from outside or relies on transfer funds from the central government.

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