

Performance Audit: Financial Indicators

July 2010

City Auditor
City of Lawrence, Kansas

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Members of the City Commission

This performance audit of financial indicators for Lawrence is intended to identify significant existing or emerging financial problems, put the city's finances in context, and encourage discussion of the city's finances.

The financial indicators analysis for 2009 suggests that the city's financial condition is mixed. Governmental activities' indicators weakened compared to the previous year, while business-type activities' indicators improved.

The analysis in this report compares financial indicators for Lawrence over time (2003-2009) and with medians based on 16 similar cities. An important limitation to this analysis include that it doesn't directly measure the quality of government services.

I make one recommendation in this report. I provided the City Manager with a draft of the report on June 18. His written response is included.

Michael Eglinski
City Auditor

Performance Audit: Financial Indicators

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Performance Audit: Financial Indicators

Results in brief

This analysis of financial indicators for Lawrence is intended to identify significant existing or emerging financial problems, put the city's finances in context, and encourage discussion of the city's finances.

The financial indicators analysis for 2009 suggests that the city's financial condition is mixed. Governmental activities' indicators weakened compared to the previous year, while business-type activities' indicators improved. The measures of Lawrence's ability to maintain the provision of services in both governmental and business-type activities remain relatively strong compared to a 16-city median.

Indicators of the relative age of the city's infrastructure, buildings, and other capital assets, show that the assets are aging but remain favorable compared to a 16-city median.

The financial performance of the city's business-type activities weakened and remains below a 16-city median. The city's business-type activities include water and sewer, solid waste, parking, stormwater and golf. Transfers from the business-type activities remain significant. The city should develop a policy to guide such transfers.

The analysis of governmental funds shows that per capita revenue and expenditures increased, while per capita debt decreased. The increase in revenue reflects sales taxes that went into effect in April 2009. Despite the increases, both revenues and expenditures for the period of 2007-2009 were generally lower than the preceding years.

I make one recommendation related to policy guidance on transfers. I provided the City Manager with a draft of the report on June 18. His written response is included.

Performance Audit: Financial Indicators

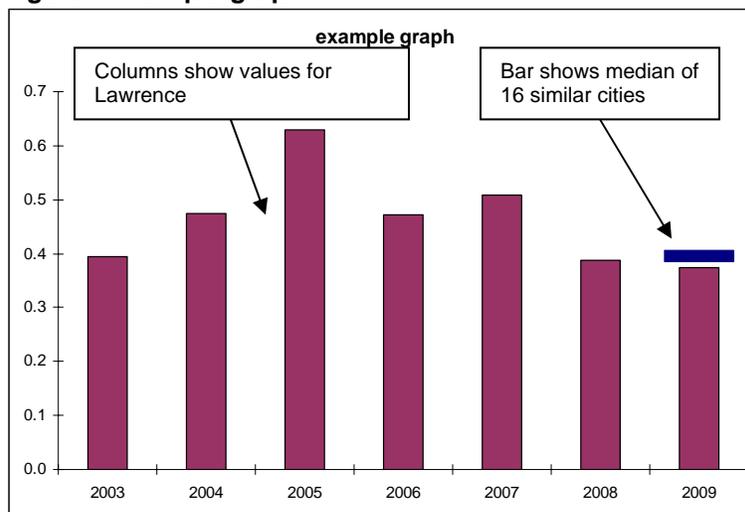
Financial indicators help understand Lawrence's financial condition

This performance audit, which analyzes financial ratios, provides the City Commission and city management with an assessment of Lawrence's finances. The performance audit is intended to encourage discussion of the city's finances and to:

- identify significant existing or emerging financial problems
- put the city's finances in context by compiling data for seven years and comparing to the median of 16 cities

Financial ratios are presented as graphs throughout the report. To evaluate the ratios, consider both the trend and the level compared to the median (see Figure 1). Trends can be characterized as more favorable, less favorable, or unclear. Likewise, levels can be characterized as more favorable, less favorable, or neutral. Characterizing each indicator using this method allows for overall conclusions about relative strengths and weaknesses of the city's finances.

Figure 1 Example graph



The City Auditor selected ratios to include in the performance audit. Most of the ratios come from *The New Governmental Financial Model: What it Means for Analyzing Government Financial Condition*.¹

This report includes 7 years of data for Lawrence (2003-2009), and compares data for Lawrence with medians based on an analysis of similar cities. Medians are based on 16 cities – Lawrence and 15 similar cities. Comprehensive annual financial reports provide most of the data. Information from the annual financial reports provides consistent, reliable data because it conforms to generally accepted accounting principles and is audited under generally accepted government auditing standards.

What is the source of the financial information in this report?

Comprehensive annual financial reports from Lawrence and the similar cities provide the financial data used in this performance audit. Nearly all of the information comes from the government-wide financial statements. Those statements rely on “full accrual” accounting. That means that the financial statements include capital assets and long-term liabilities as well as current assets and liabilities. The government-wide financial statements report all revenues and costs of providing government services, not just those received or paid in the current year or soon after.

The government-wide financial statements provide information about the cost of government services, including the cost of consumption of capital as well as financial resources. Capital resources include buildings, machinery, roads, and other assets.

The cities used for comparison have characteristics similar to Lawrence. Based on 2006 data from the U.S. Census Bureau, the areas have similar:

- urban area population;
- portion of population under the age of 18;
- per capita income;
- median age of housing.

See the Scope, Method and Objectives section for more detailed information on the similar cities.

Analyzing financial ratios provides an assessment of Lawrence’s financial condition, but it is important to recognize strengths and limitations to this sort of analysis. Figure 2 highlights some strengths and limitations of the ratio analysis.

¹ Barbara A. Chaney, Dean Michael Mead, and Kenneth R. Scherman, “The New Governmental Financial Reporting Model: What it Means for Analyzing Government Financial Condition,” *Journal of Government Financial Management*, Spring 2002.

Figure 2 Strengths and limitations of the ratio analysis

Strengths	Limitations
Lawrence data compiled under consistent accounting principles and audited under Government Auditing Standards	Analysis provides a broad overview rather than detailed analysis
Ratios developed independent of city management and provides a new view of Lawrence finances	Excludes information on level and quality of services and infrastructure
Comparative data compiled under consistent accounting principles and audited under Government Auditing Standards	Excludes external factors, such as demographic and economic trends, that may affect city finances
	Provides historical analysis rather than projections of future condition

Government Fiscal Outlook a National Challenge

The Government Accountability Office recently updated Congress on the fiscal outlook of state and local governments:

Fiscal sustainability presents a national challenge shared by all levels of government. Recent economic events and state and local government efforts to maintain balance during the current recession have called attention to the immediate challenges facing these governments. The recession has substantially reduced states' and local governments' combined tax revenues. These immediate challenges exist alongside the daunting long-term fiscal challenges for all levels of government.

Source: *State and Local Governments' Fiscal Outlook March 2010 Update*, U.S. Government Accountability Office, March 2010

Government activities ratio analysis

Governmental activities include public safety, public works, and general government and are mostly supported by taxes. Figure 3 summarizes the analysis of ratios for governmental activities.

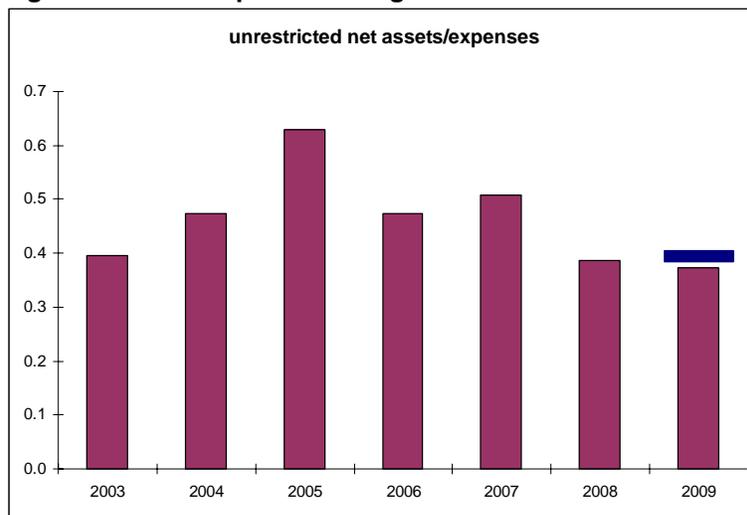
Figure 3 Governmental activities: summary of ratio analysis

	Indicator	Compared to prior year
Stronger measures	Reliance on taxes to pay expenses (Figure 6)	Remained the same
	Ability to maintain services (Figure 4)	Remained the same
	Age of capital assets relative to comparison communities (Figure 10)	New measure
	Resources to meet immediate needs (Figure 7)	Improved
Weaker measures	Debt burden (Figure 8)	Remained the same
	Rate resources grow (Figure 5)	Weakened
	Interest payment effect on flexibility (Figure 9)	Weakened

Financial position: ability to maintain services

Lawrence’s financial position shows no clear trend and the level are very near the median (see Figure 4). The measure indicates that the city’s ability to maintain the provision of services.

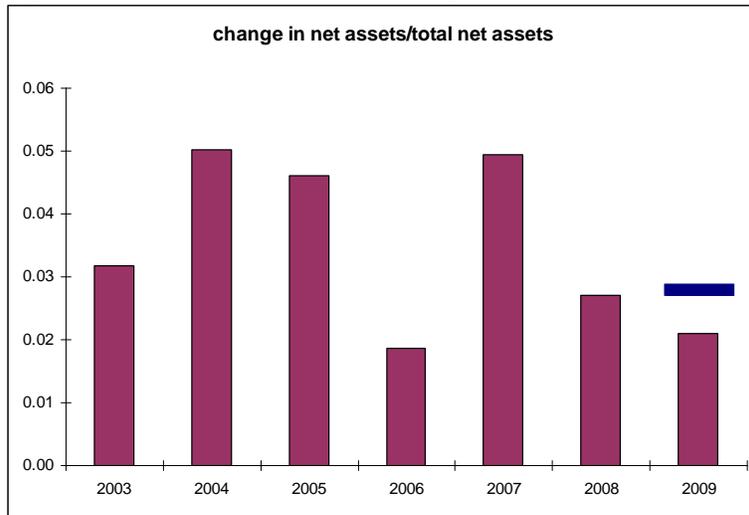
Figure 4 Financial position for governmental activities



Financial performance: rate resources grow

Lawrence’s financial performance ratio shows a negative trend and the level is below the median (see Figure 5). Compared to the median of similar cities, Lawrence’s net resources grew more slowly.

Figure 5 Financial performance for governmental activities

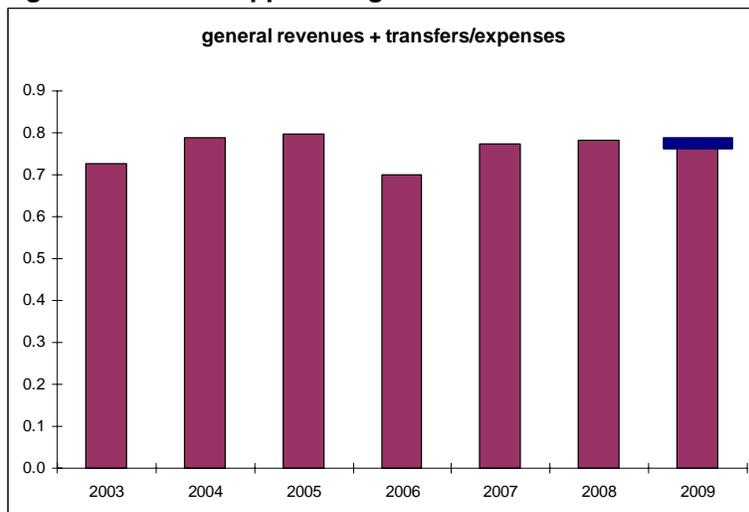


Most cities faced declines in financial performance in the most recent year, probably reflecting economic conditions. All things being equal, tax revenues which decrease or grow slower than costs will reduce financial performance.

General support: reliance on taxes to pay expenses

Lawrence's general support for governmental activities shows a gradually increase over the last several years and is near the median (see Figure 6). General support level reflects the extent to which the city relies on general taxes and transfers from enterprise operations rather than service charges and grants. In evaluating the general support level, focus on unexpected substantial changes more than the level.

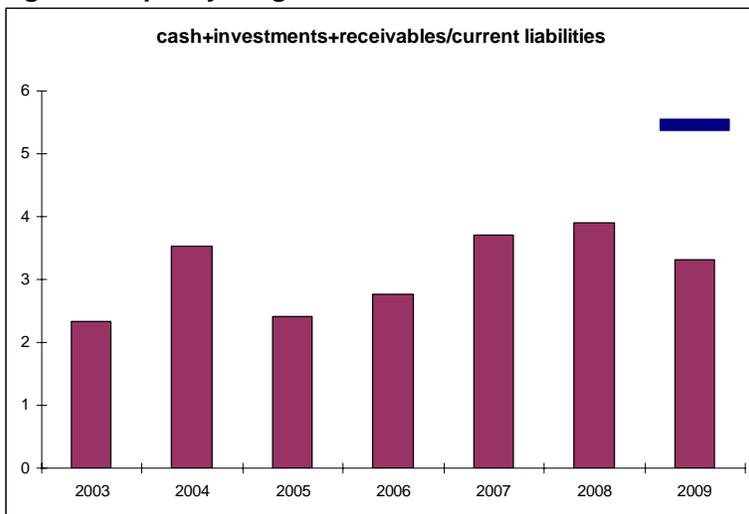
Figure 6 General support for governmental activities



Liquidity: resources to meet immediate needs

Lawrence's liquidity ratio shows no clear trend and is above the average value for Lawrence for the period of 2003-2009 (see Figure 7). The indicator is interpreted in relation to Lawrence's average rather than the 16 city median and the level is considered favorable because it is above that average.² The measure indicates the city's access to resources to meet immediate needs.

Figure 7 Liquidity for governmental activities

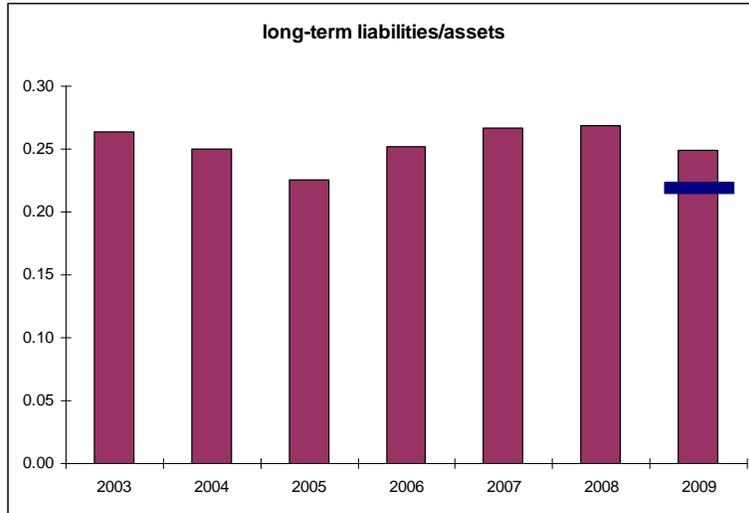


Long-term liabilities: debt burden

Lawrence's long-term liabilities measure shows no clear trend and is above the median (see Figure 8). The ratio measures debt burden and suggests that Lawrence's debt burden is higher than the median of similar cities.

² The ratio for Lawrence includes \$14.4 million in temporary notes payable, which is unique among the similar cities. Lawrence initially finances projects with temporary notes during construction and then refinances with bonds once the project is complete. Because the comparison cities don't use temporary notes to the same extent, the ratio is interpreted in relation to the trend and the average level over the period of 2003-2009. That average is 3.1 and the level for Lawrence in 2009 is 3.3. The 16 city median is included in the graph, but is not the basis of the ratio's evaluation.

Figure 8 Long-term liabilities for governmental activities



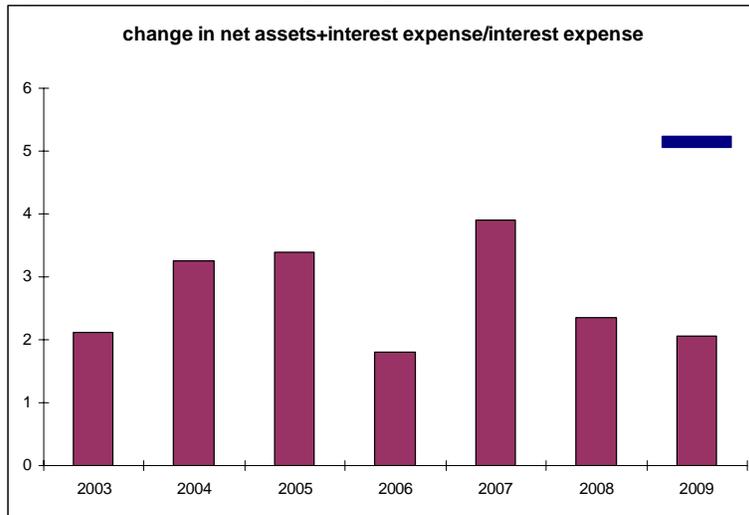
Moody's recalibrated Lawrence's credit rating

Moody's Investor Services recently recalibrated credit ratings for municipal credit in the U.S. As a result, Moody's changed Lawrence's general obligation and revenue bonds to Aa1 and Aa2. The change involved moving to a different rating scale and was not an upgrade

Interest coverage: interest payment effect on flexibility

Lawrence's interest coverage ratio shows a declining trend and is below the median (see Figure 9). Lower levels indicate that the city has less near term flexibility because resources are devoted to making interest payments. The impact of interest payments in Lawrence is greater than the median of similar cities, which is consistent with the long-term liability ratio.

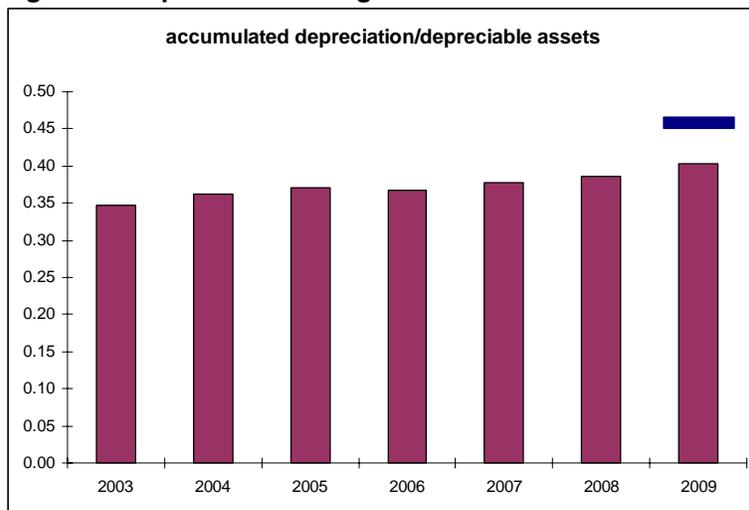
Figure 9 Interest coverage for governmental activities



Capital assets: relative age of capital assets

The capital asset measure shows a less favorable trend and a more favorable level than the median (see Figure 10). For this ratio, a lower level is more favorable. The ratio measures the relative age of capital assets – primarily infrastructure and buildings. A lower level is more favorable and suggests the city will not face significant replacement needs in the near future.

Figure 10 Capital assets for governmental activities

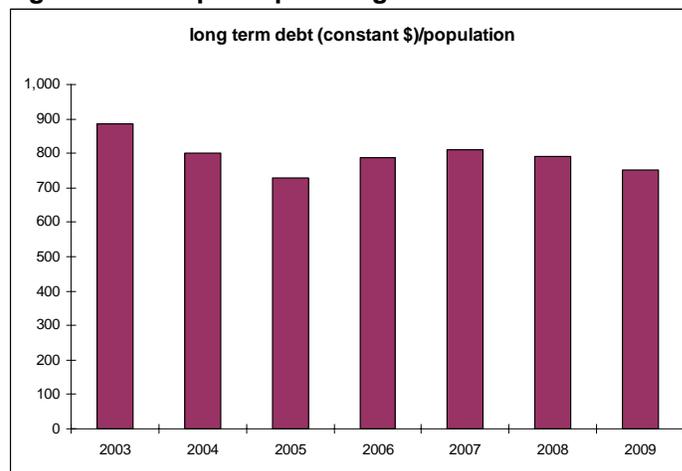


Debt, revenue and expenditure trends

Debt, revenue and expenditures trends for governmental funds provide information on financial flexibility and sustainability. The graphs show data for all governmental funds on a per capita basis and adjusted for inflation. In this analysis, the governmental fund indicators aren't compared to medians.

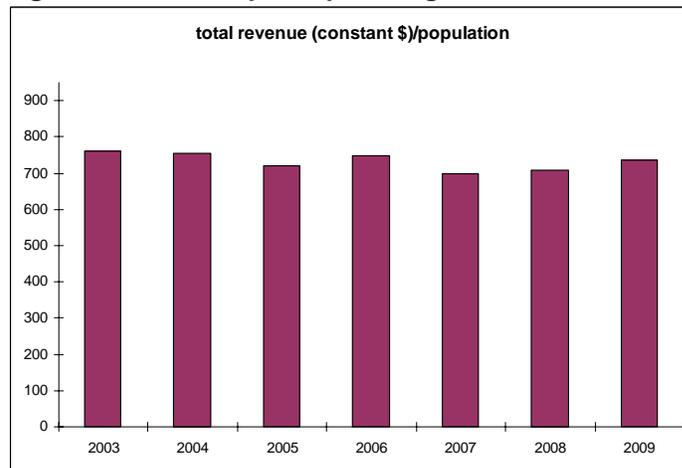
Long-term debt per capita decreased in the last two years (see Figure 11).

Figure 11 Debt per capita for governmental funds



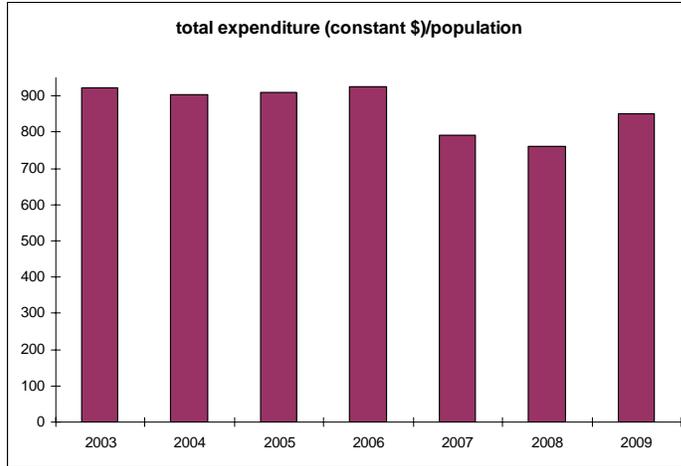
Revenue per capita increased in 2009 (see Figure 12). The increase includes a new sales tax that began to be collected in April 2009.

Figure 12 Revenue per capita for governmental funds



Expenditures per capita increased in 2009 but remained relatively low (see Figure 13). Expenditures in 2009 were lower than expenditures in the period of 2003-2006.

Figure 13 Expenditures per capita for governmental funds



Business-type activities ratio analysis

Business-type activities include water and sewer, solid waste, parking, stormwater, and golf, and are mostly supported by user fees and charges. Figure 14 summarizes the analysis of ratios for business-type activities.

Figure 14 Business-type activities: summary of ratio analysis

	Indicator	Compared to prior year
Stronger measures	Ability to maintain services (Figure 16)	Improved
	Resources to meet immediate needs (Figure 24)	Improved
	Age of capital assets relative to comparison communities (Figure 26)	New measure
Weaker measures	Mix of funding (Figure 21)	Remained the same
	Debt burden (Figure 25)	Remained the same
	Rate resources grow (Figure 17)	Remained the same

The city provides five business-type activities. Water and sewer and solid waste make up most of the business type activities. The other services – parking, stormwater, and golf course – are much smaller. Figure 15 summarizes the different activities.

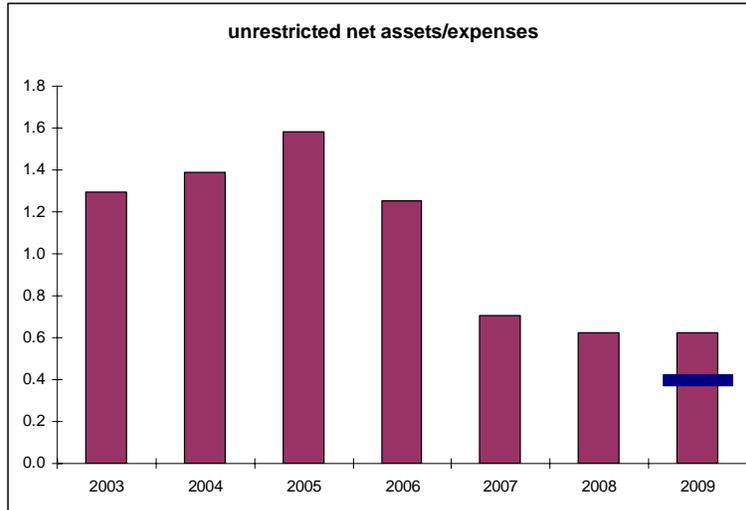
Figure 15 Summary of business-type activities

Activity	Services provided	Expenses 2009
Water and sewer	Water and sewer services for commercial, residential, and wholesale customers	25,862,716
Solid waste	Solid waste collection and recycling services to commercial and residential customers	9,686,799
Parking	Downtown parking and parking enforcement services	1,299,618
Stormwater	Maintain and improve stormwater infrastructure	1,867,219
Golf course	Operates the Eagle Bend Golf Course	1,016,011

Financial position: ability to maintain services

The financial position for business-type activities shows no clear trend and is above the median (see Figure 16). Financial position measures the ability to maintain the provision of services.

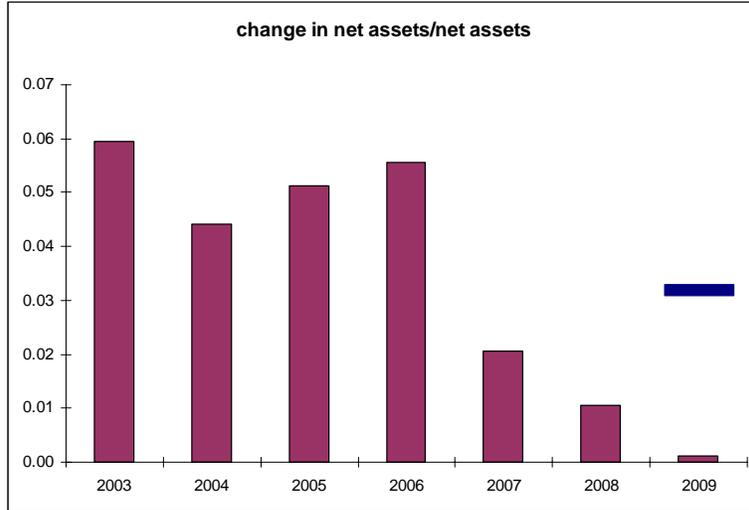
Figure 16 Financial position for business-type activities



Financial performance: rate resources grow

The financial performance for business-type activities weakened and is well below the median (see Figure 17). Financial performance measures the rate at which resources grow.

Figure 17 Financial performance for business-type activities



Several factors caused the decline in the financial performance ratio. Program revenues – primarily charges for service – began growing at a slower rate in 2007. Last year’s Financial Indicators analysis noted that water sales had declined in 2007 and 2008, consistent with wetter summers. The decline in program revenues may also relate to the general decline in economic conditions. Program expenses other than capital grew faster than revenues in 2007 and 2008. Expenses related to interest costs also increased. Transfers from the business-type activities increased sharply in 2007. Investment earnings declined sharply in 2008 and 2009.

Comparing the revenue that business-type activities bring in with their expenses helps understand the extent to which the user fees and charges cover the costs of providing the services. Figure 18 shows the difference between revenue and expenses for each activity, referred to as net revenue. If net revenue is negative, then the revenues for the activity haven’t covered the expenses.³

Figure 18 Net revenue for business-type activities

Service	2005	2006	2007	2008	2009
Water sewer	6,226,612	6,694,331	4,124,858	3,419,804	3,237,253
Solid waste	-45,666	-322,906	-595,396	-746,555	-30,954
Parking	-90,799	20,457	-233,451	-236,315	-286,022
Stormwater	1,301,282	1,085,129	1,058,478	1,115,533	1,051,813
Golf	-56,584	82,828	-2,301	-83,312	-96,595

³ These expenses include the costs of using up capital assets to provide services. Capital assets include buildings, vehicles, and infrastructure. The city estimates the depreciation of capital assets using straight-line depreciation. That means, for example, that if a vehicle was bought in 2005 for \$50,000 and is expected to last 5 years, it would be included as a \$10,000 expense in each year from 2005 to 2009.

Over the last 5-years, solid waste, parking, and golf have generated less revenue than expense (see Figure 19). Cost recovery goals vary from activity to activity. Ideally, the results would be compared to formal policy on cost recovery. An alternative is to compare cost recovery to similar activities in other communities.

Figure 19 Cumulative net revenue (2005-2009)

Service	Net revenue
Solid waste	-1,741,477
Parking	-826,130
Golf	-155,801

In aggregate, solid waste and parking activities break even in other communities, though golf does not (see Figure 20). Aggregating the revenues and expenses for solid waste, parking, and golf operations from Lawrence and the similar cities, shows that solid waste and parking generate somewhat more revenue than expense. Golf operations do not. Lawrence’s solid waste and parking performed worse, while golf performed somewhat better.

Figure 20 Comparison of financial performance (2009)

Service	Aggregate based on 16 cities	Lawrence
Solid waste	105%	100%
Parking	108%	78%
Golf	87%	90%

If solid waste, parking and golf in Lawrence performed at the aggregate rate shown in Figure 20, then these activities would have generated net revenue of \$865,000 more than they did in 2009. Closing the gap could involve reducing expenses or increasing revenues.

Cost Cutting Recommendations from Solid Waste Performance Audit

The performance audit of solid waste services (January 2010) included a number of recommendations intended to reduce costs and reduce the gap between revenue and expenses.

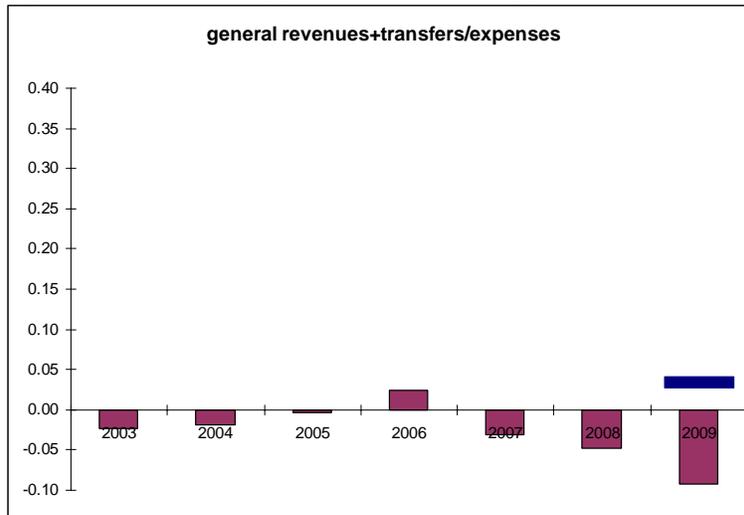
- Tracking and reporting on hours worked by employees could help evaluate workload and assess the impact of operational changes.
- Preparing and presenting additional performance measure information could help the public and City Commission evaluate the efficiency and effectiveness of the division.
- Developing policy guidelines for free services and charging enterprise operations for services could increase revenue with minimal increase in expenses.
- Strengthening controls for overtime could reduce expenses.
- Analyzing the cost/benefit and feasibility of implementing good solid waste practices which could reduce costs: increasing automated collection; using routing and vehicle performance monitoring technologies; and providing residential volume-based collection.

Follow-up in June 2010 indicated that the city has made progress in implementing many of the recommendations that could reduce costs.

General support: mix of funding

The level of general support for business-type activities shows a declining trend in recent years and is below the median (see Figure 21). General support measures the extent to which taxes, rather than service charges, support business-type activities. In evaluating the general support level, focus on unexpected substantial changes more than the level. Lawrence has a negative level, which means that the business-type activities, taken as a whole, support governmental activities.

Figure 21 General support for business-type activities



Transfers from the business-type activities totaled \$4.3 million in 2009. The level remained comparable to the prior two years, but well above transfers for the years of 2003-2006 (see Figure 22).

Figure 22 Business-type activities transfers

Year	transfers
2003	1,288,000
2004	1,441,718
2005	1,892,038
2006	2,102,194
2007	4,269,392
2008	3,890,984
2009	4,297,080

Transfers from the business-type operations went primarily to the general and workers comp funds (see Figure 23).

Figure 23 Major interfund transfers from business-type activities (2009)

Service	Transfers to general fund	Transfers to workers comp fund
water sewer	2,744,858	290,000
Solid waste	161,025	225,000
Parking	0	0
Stormwater	400,000	50,000
Golf	0	0

Lawrence business-type activities transfer a relatively high portion of their charges for services to the governmental activities. Lawrence’s ratio of transfers out to charges for services is the highest among all of the cities in the most recent year. Four cities – Lawrence, Gainesville, Charlottesville, Columbia – transferred between 3.8 and 9.9 percent of their charges for service and at least \$1 million to general government.

Gainesville, Charlottesville, and Columbia base the amount of transfers on specific formulas. For example, Columbia bases the transfers on a percent of gross receipts that is consistent with the rate established for private utilities. Gainesville has more complicated formulas based on audited revenues with adjustments for revenues related to the university and surcharges paid by customers.

Enterprise Support to General Government in Wichita

Enterprise operations in Wichita contribute to the general fund through a public safety fee and, in the case of the utilities, a payment in lieu of franchise fees.

The city calculates the public safety fee by estimating the portion of the general operating mil levy that provides public safety services, and then applying that levy to an estimate of the assessed valuation of the enterprise operations.

The city estimates assessed valuation based on data from the audited financial statements. The city calculates payments in lieu of franchise fees by applying the franchise fee level for non-city utilities to revenues generated by the city utilities.

All of Wichita's enterprise operations – water and sewer, stormwater, golf, transit, and airport – contribute the public safety fee. Only the water and sewer utility contribute payments in lieu of franchise fees.

While the city has not established a policy to guide the transfers, the City Manager's Office described transfers as predominantly to assist with administrative overhead for specific services provided by the general fund and as payments in lieu of franchise fees or taxes charged to private utilities for similar services.

In response to a 2008 audit recommendation to document the method for allocating overhead and the basis of interfund transfers, the City Manager's Office wrote that:

Staff has been reviewing practices in other Kansas communities to determine best practices in development of a recommended policy to bring before the City Commission. We believe the best policy is to document significant alterations in future enterprise interfund transfers. This documentation would include the rationale for proposed alterations (e.g. increased general overhead expenditures, significant use of City maintained right-of-way, etc). Transfers are part of the annual budget decision-making process, and

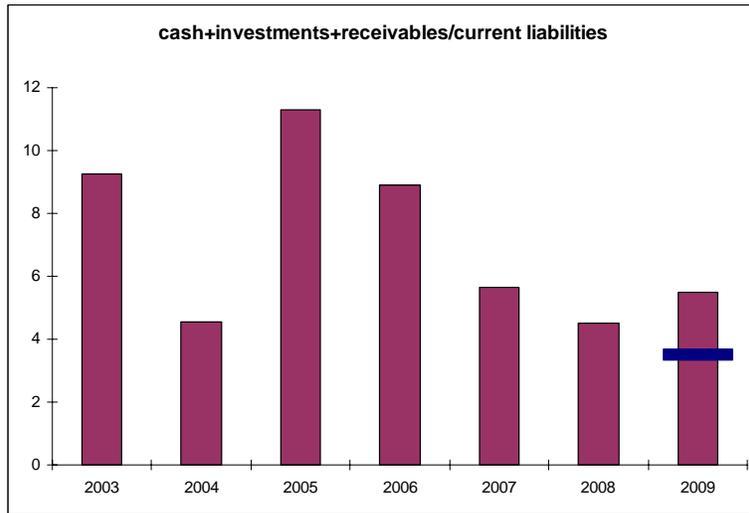
documentation of any significant alterations for these transfers will accompany any staff recommendations to make such alterations.⁴

The City Manager should bring a recommended policy to the City Commission for discussion and consideration.

Liquidity: resources to meet immediate needs

The business-type liquidity measure shows no clear trend and is above the median (see Figure 24). Liquidity measures access to resources to meet immediate needs.

Figure 24 Liquidity for business-type activities

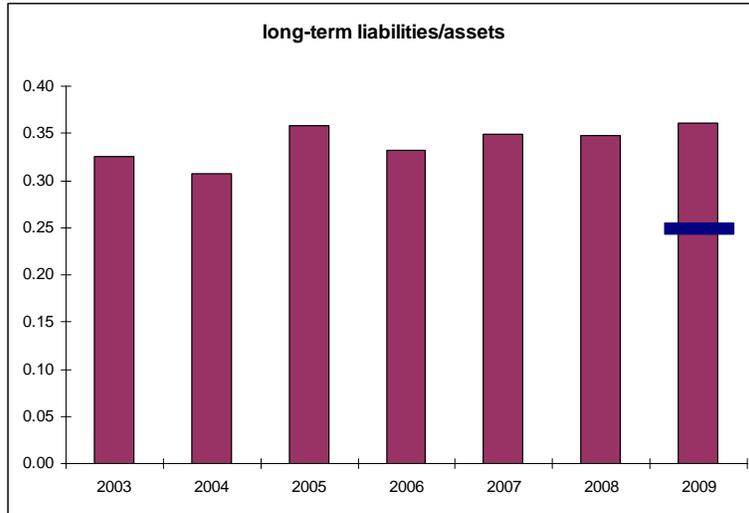


Long-term liabilities: debt burden

The business-type measure of long-term liabilities shows no clear trend and is above the median (see Figure 25). The ratio addresses debt burden.

⁴ *Response to Financial indicators Performance Audit*, memo from Cynthia Boecker, Assistant City Manager, to Dave Corliss, City Manager, February 11, 2009.

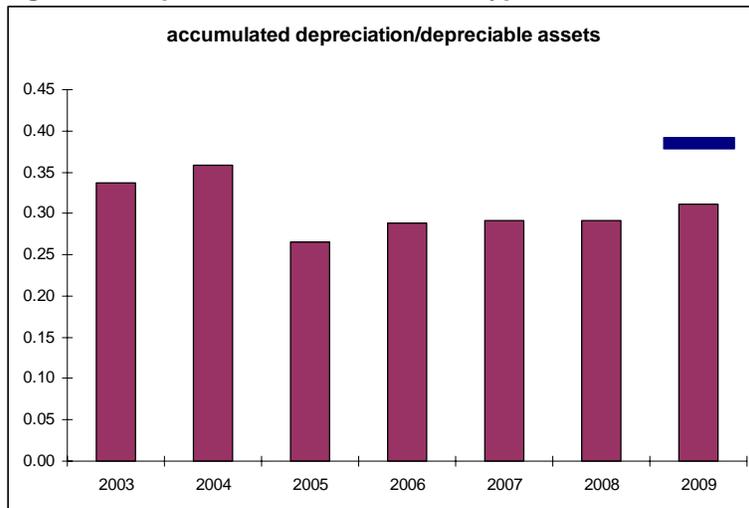
Figure 25 Long-term liabilities for business-type activities



Capital assets: relative age of capital assets

The capital asset ratio measure shows a less favorable trend and a more favorable level than the median (see Figure 26). For this ratio, a level below the median is more favorable. The ratio measures the relative age of capital assets – primarily infrastructure and buildings. A lower level is more favorable and suggests the city will not face significant replacement needs in the near future.

Figure 26 Capital assets for business-type activities



Performance Audit: Financial Indicators

Recommendations

The City Auditor recommends the City Manager:

1. Present for the City Commission a recommended policy on interfund transfers for enterprise operations.

The approved performance audit plan for 2010 includes a project to address fees and charges. That project could address issues related to the financial performance of enterprise operations such as golf, parking, and solid waste.

Performance Audit: Financial Indicators

Scope, methods and objectives

Analyzing financial ratios provides the City Commission and city management with an assessment of Lawrence's financial condition. The analysis is intended to encourage discussion of the city's financial condition and to:

- identify significant existing or emerging financial problems
- put the city's financial condition in context of the seven year period of 2003-2009 and through comparisons to medians of cities similar to Lawrence

The City Auditor updated the analysis done in Performance Audit: Financial Indicators (July 2009). The auditor compiled information from Comprehensive Annual Financial Reports for Lawrence and 15 similar cities; evaluated ratios for Lawrence by looking at trends and comparing Lawrence to medians; and discussed the analysis with city staff. Chaney, Mead and Scherman developed most of the indicators in this performance audit.⁵

The Planning and Development Services Department provided estimates for Lawrence population. Those estimates were used to calculate per capita debt, revenue, and expenditure trends. The trends were adjusted for inflation using *American City County Magazine's* municipal cost index and a base year of 2003.

The City Auditor conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require planning and performing the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. The City Auditor believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

⁵ Barbara A. Chaney, Dean Michael Mead, and Kenneth R. Scherman, "The New Governmental Financial Reporting Model: What it Means for Analyzing Government Financial Condition," *Journal of Government Financial Management*, Spring 2002.

The City Auditor provided the City Manager with a draft of the report on June 18, 2010.

Comparable cities

To identify comparable cities, the City Auditor reviewed data from the U.S. Census Bureau American Community Survey for 2006. Data on 352 urban areas were used to identify those most similar to Lawrence on four measures:

- Population of the urban area
- Portion of residents under the age of 18
- Per capita income
- Median year of construction of housing

Figure 27 cities similar to Lawrence

Urbanized Area	Population urbanized area	Percent under the age of 18	Per capita income	Median year housing built
Lawrence, KS	84,899	18.1	21,026	1978
Norman, OK	86,535	17.8	22,234	1977
Missoula, MT	73,659	18.1	20,150	1976
Bellingham, WA	94,988	17.9	23,653	1978
Athens-Clarke County, GA	120,444	18.5	18,809	1979
St. Cloud, MN	96,630	20.0	21,735	1979
Champaign, IL	127,577	17.3	21,306	1975
Johnson City, TN	102,652	19.8	19,835	1974
Chico, CA	98,804	20.6	21,946	1978
Grand Junction, CO	103,932	20.6	21,666	1979
Charlottesville, VA	86,630	18.1	25,180	1977
Gainesville, FL	159,944	17.4	21,927	1982
Iowa City, IA	87,686	18.1	25,717	1977
Bloomington, IN	90,000	14.9	21,981	1976
Davis, CA	69,913	17.5	26,193	1978
Columbia, MO	104,334	20.7	23,040	1982

Source: U.S. Census Bureau, American Community Survey, 2006.

Urbanized Areas are central place(s) and adjacent territory with a general population density of at least 1,000 people per square mile of land area that together have a minimum population of at least 65,000 people.

The urbanized area of Leesburg-Eustis, Florida, fits the criteria used to identify places similar to Lawrence. However, because Leesburg and Eustis are two separate cities, with populations under 20,000, the urbanized area was considered significantly different from Lawrence and excluded from the comparison and the table.

Key Terms

City finances cover both governmental activities and business-type activities. **Governmental activities** include services like police and fire, public works, and administration. **Business-type activities** include services paid for largely by charges for service, such as trash collection and water and sewer utilities.

City **assets** are resources the city can use to provide services and operate the government. Among other things, assets include cash, investments, land, buildings, streets and water mains.

City **liabilities** are obligations the city has to turn over resources to other organizations or individuals. Liabilities include things like money the city has to pay to companies that provide services to the city and repayments for money the city borrowed.

Subtract liabilities from assets and the result is **net assets**. A portion of the city's assets may be used to meet ongoing obligations and this is referred to as **unrestricted net assets**.

The city collects taxes, such as sales taxes and property taxes, as **general revenues**. In addition to general revenues, **transfers** from other governmental activities can provide resources.

Expenses include costs incurred regardless of whether or not cash has actually changed hands. Expenses include depreciation of capital assets. These "accrual-basis" expenses provide a comprehensive measure of the cost of providing services.

Source of Financial Data

Comprehensive annual financial reports from Lawrence and the similar cities provide the financial data used in this performance audit. Nearly all of the information comes from the government-wide financial statements. Those statements rely on "full accrual" accounting. That means that the financial statements include capital assets and long-term liabilities as well as current assets and liabilities. The government-wide financial statements report all revenues and costs of providing government services, not just those received or paid in the current year or soon after.

The City Auditor calculated ratios using the most recent available comprehensive annual financial report. Most of the annual reports from other cities cover a 2009 fiscal year. However, in four of the other cities, the most recent annual report covered fiscal years that ended in 2008.

Performance Audit: Financial Indicators

Management's Response



City of Lawrence KANSAS

CITY COMMISSION

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MIKE AMYX

COMMISSIONERS
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June 29, 2010

Michael Eglinski
City Auditor
City of Lawrence, Kansas

Re: Performance Audit: Financial Indicators June 2010

Dear Michael,

Thank you for your recent report regarding financial indicators. The report contains a partial picture of the City's financial and operational conditions. Additional information concerning taxing comparisons and level of service comparisons are likely necessary to provide a fuller view of the City's financial and operational conditions. My speculation is that this additional information, however, is unlikely to alter the general conclusion of your report that our financial condition is mixed – with some favorable and unfavorable trends.

I do believe it is appropriate to place the report in some national economic context. From the end of 2007 to the end of 2009, the net worth of American households declined by almost 11 trillion dollars. This is a loss of almost 17% of all new worth for American households. During this same time, the American economy lost 7.4 million jobs, a loss of over 5% of all jobs in our country. Nationally, home prices have fallen by almost 10 percent. Fortunately, Lawrence has not experienced this large of decline in jobs or housing values. However, we have been negatively impacted by the recessionary economy. In Lawrence, new building permits are significantly below historic levels, assessed valuation has declined, interest income has stagnated, and sales tax revenues have not met historic projections for growth.

These larger economic trends have placed a heightened emphasis on expenditure reduction to balance against challenged revenues – something the City has been able to largely accomplish. The City spent less on vendor services in 2009 than it did in 2008. Figure 13 in your report documents that our 2009 expenditures were lower than expenditures in the period 2003-2006.



Readers should understand that we have recently reduced expenditures – largely through attrition of vacant positions – in our solid waste division. The City's golf course has brought in more revenue than operational expenses in recent years, but an accounting of the depreciation of the golf course (based on its debt retirement, not its life expectancy) results in a full accounting which shows expenses (including depreciation) exceeding revenues. Similar comments about depreciation expense are likely true in other comparisons – they are also true of other comparison communities as well. I believe a primary value of this report is a strong reminder that the cash basis of our budgeting process – where we do generally balance revenues with expenditures – should also be informed with the depreciating value of our assets (an accounting expense).

This returns us to a theme that I believe remains important: Lawrence needs to continue to invest in its infrastructure – raising the necessary revenues to do so without reducing other spending priorities. I do not believe we are providing sufficient revenues to meet all of our capital/infrastructure needs. Our current philosophy is to grow our local tax base to provide these revenues without increasing our mill levy.

I note your recommendation concerning an additional policy governing transfers. I believe that we have earlier responded that we would follow a practice to document significant alterations in future enterprise interfund transfers. If the Commission desires to devote additional staff resources to development of additional policy guidance in this area; staff can prepare such documentation as well.

Thank you again for your report.

Sincerely,

A handwritten signature in black ink, appearing to read "David L. Corliss". The signature is written in a cursive, flowing style.

David L. Corliss
City Manager