Review of Audits of Outside Agencies

March 2007

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City Auditor's Office

City of Kansas City, Missouri

1-2007

March 7, 2007

Honorable Mayor and Members of the City Council:

In fiscal year 2006, 41 non-municipal agencies received over $152 million in funding or pass-through money to operate or administer programs or services that further the public good. The magnitude of city expenditures devoted to non-municipal agencies makes it important for elected officials to be informed of any concerns expressed by an agency's commercial auditor that may jeopardize the agency's ability to safeguard and properly use the funding it receives from the city. Commercial auditors for 9 agencies had findings they were required to report; 1 agency did not submit its financial audit as required; and an additional 10 agencies did not submit the required internal control analyses.

The city has a significant financial stake in many of the non-municipal agencies. When one of these agencies experiences financial problems, there can be serious ramifications for the city. To give a more complete picture of the financial health of these agencies, this report includes financial analyses for 13 reporting agencies that received over $1 million in fiscal year 2006. We identified 10 of these agencies with at least one weak financial indicator.

This year we surveyed agencies about communications with and the selection of their commercial auditor and the compensation of the agencies most highly compensated employees. Of the agencies that responded, all reported that their board or audit committee meets with the agency's commercial auditor at least annually; all but one reported board involvement in selecting and establishing the commercial auditor's scope of work; and most put their financial audit out to bid within the last five years. The level of dependence on city funding and the level of compensation paid to the most highly compensated agency officers, directors, or employees varied widely among agencies.

We appreciate the courtesy and cooperation extended to us during this project by the agencies, their accounting firms, and the city monitoring departments. We sent a draft report to the city manager and monitoring departments for their review on February 16, 2007. The team for this project was Joyce Patton and Nancy Hunt.

Gary White
Acting City Auditor

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Introduction

Objectives

The purpose of this audit of outside agencies is to provide elected officials and city staff with information on the financial condition and internal controls of agencies receiving significant city funding and assist them when making decisions about future funding for these agencies.

This audit was conducted pursuant to Article II, Section 216 of the Charter of Kansas City, Missouri and Kansas City Code of Ordinances Section 2-113. Code Section 2-113 requires that the city auditor review the audits of outside agencies and annually report the negative opinions, reportable conditions, and material weaknesses to the mayor, City Council, and city manager.

A performance audit systematically examines evidence to independently assess the performance and management of a program against objective criteria. Performance audits provide information to improve program operations and facilitate decision-making.[1]

Scope and Methodology

An outside agency is any entity with which the city contracts and/or provides funds for the operation or administration of a program or service that furthers the public good.[2] Our review was limited to those outside agencies receiving $100,000 or more from the city in fiscal year 2006 and agencies that provided us with audits after our previous year's report was published. This review is based on the audit reports we received from these agencies between February 15, 2006 and February 21, 2007. Audit reports are based on the agency's fiscal year, which can vary from the city's fiscal year.

Our review was performed in accordance with generally accepted government auditing standards. We do not include a written response from management because we do not make any recommendations;

[1] Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office, 2003), p. 21.
[2] Contracts with the commissioner of purchases and supplies, construction contracts, consultant or engineering contracts, and contracts with governmental entities are excluded.

however, we provided a draft copy to the City Manager and monitoring departments. Audit methods included:

- Identifying outside agencies that received at least $100,000 from the city in fiscal year 2006.
- Summarizing the findings of the agencies' commercial auditors.
- Identifying agencies' planned corrective actions and monitoring department oversight activities.
- Surveying agencies on governance issues and obtaining Form 990 returns.
- Calculating selected financial ratios for those agencies receiving $1 million or more from the city during fiscal year 2006.

No information was omitted from this report because it was deemed privileged or confidential.

Background

Legislative Authority

Section 2-113 of the Code of Ordinances requires that city contracts include a provision that any agency receiving $100,000 or more in city funding within a year engage a certified public accountant (CPA) to conduct a financial audit and requires the CPA to submit the audit, management letter, and response to the management letter to the city auditor. The annual audit is to be submitted to the monitoring department within six months of the agency's fiscal year-end. In addition, the agency is required to engage a professional qualified to analyze the agency's internal control structure, and the professional is to furnish the city auditor with a copy of the analysis.

Funding

Non-municipal agencies receive substantial taxpayer support. During fiscal year 2006, the city provided 41 non-municipal agencies with over $152 million in funding, representing about 19 percent of the city's general municipal program expenditures during that year. (See Exhibit 1.) Seven city departments contract with these outside agencies and are responsible for monitoring the agencies' performance.

Outside agencies' level of dependence on city funding varied among agencies. Based on the most recent three-year averages, city support ranged from less than 1 to 78 percent of agency revenues. City funding comprised less than 15 percent of agency funding for 18 agencies, but more than one-half of agency funding for 6 agencies. Diverse funding sources can make agencies less dependent on city support. (See Exhibit 1.)

Exhibit 1. Fiscal Year Funding and Three-Year Average Percentage of City Support to Total Revenue

Agency	City Funding and Pass-Through Payments 2004	2005	2006	Percentage City Support to Total Revenue 3-Year Avg.
American Jazz Museum, Inc.	$ 674,000	$ 674,000	$ 624,000	31%
Black Economic Union of Greater Kansas City	1,861,253	297,313	202,847	64%
Bridging the Gap, Inc.	389,599	450,100	478,000	36%
Cabot Westside Health Center	191,497	189,390	536,014	12%
Children's Mercy Hospital	3,207,411	2,058,485	1,411,697	.5%
Community Assistance Council, Inc.	193,466	248,355	234,030	46%
Community Development Corporation of Kansas City	587,987	424,891	1,131,988	25%
Community LINC, Inc.	240,801	123,474	165,638	20%
Community Movement for Urban Progress, Inc.[3]	171,604	110,899	31,039[4]	13%
Convention and Visitors Bureau of Greater Kansas City	4,843,303	5,122,325	5,843,757	78%
Economic Development Corporation of Kansas City, Mo.	1,196,964	943,018	1,046,215	26%
Friends of the Zoo, Inc., of Kansas City, Missouri	4,000,000	3,994,223	4,000,000	31%
Good Samaritan Project, Inc.	722,978	652,027	514,592	45%
Greater Kansas City Housing Information Center	201,093	147,305	160,940	49%
Guadalupe Center, Inc.	416,870	263,855	450,431	9%
Hispanic Economic Development Corporation	991,213	158,778	119,535	67%
Hope House, Inc.	115,192	129,286	120,460	4%
Kansas City Area Transportation Authority[5]	25,927,506	44,483,447	47,995,232	52%
Kansas City Free Health Clinic	1,094,172	1,162,085	1,704,287	19%
Kansas City Neighborhood Alliance	124,910	133,977	126,490	6%
Legal Aid of Western Missouri	547,324	613,203	774,990	11%
Liberty Memorial Association	143,727	819,881	588,000	22%
Main Street Development Corporation	74,801	91,883	107,521	55%[6]
Mattie Rhodes Counseling and Art Center	288,119	126,116	160,907	10%
Metropolitan Ambulance Services Trust	10,157,310	8,637,189	12,300,000	35%
Newhouse, Inc.	188,457	167,586	155,646	13%
Northland Health Care Access	103,109	93,556	136,773	8%[6]
Northland Neighborhoods, Inc.	224,131	257,658	332,207	48%

[3] Doing business as Move UP, Inc.
[4] The 2005 audit received for the Community Movement for Urban Progress, Inc. is included in this report because it was received after the release of our prior year's report.
[5] Funding was increased in fiscal years 2005 and 2006 due to the passage of a 5-year, three-eighths-cent public transit sales tax.
[6] Percentage calculated over two years because in prior years agency was not required to submit audit.

Agency	City Funding and Pass-Through Payments 2004	2005	2006	Percentage City Support to Total Revenue 3-Year Avg.
Old Northeast, Inc.	254,135	160,214	162,639	36%
Operation Breakthrough, Inc.	$ 226,661	$ 109,375	$ 210,041	3%
Planned Industrial Expansion Authority of Kansas City, Mo.	543,655	271,098	125,032	11%
reStart, Inc.	72,254	73,684	287,454	18%[7]
Rose Brooks Center, Inc.	239,439	185,299	182,211	5%
Samuel U. Rodgers Health Center, Inc.	612,498	457,860	1,810,185	7%
SAVE, Inc.	1,036,063	1,046,505	720,014	26%
Swope Community Builders[8]	717,564	540,719	431,122	6%
Swope Health Services[9]	790,322	606,028	1,313,983	3%
Tax Increment Financing Commission of Kansas City, Mo.	34,606,336	35,324,959	38,388,136	60%
Truman Medical Center, Inc.	22,484,939	16,817,225	25,827,151	6%
Twelfth Street Heritage Development Corporation	163,477	150,579	159,567	20%[10]
Union Station Kansas City, Inc.	1,252,032	1,302,289	1,186,857	9%
United Services Community Action Agency	163,327	149,932	111,172	2%
Total	$122,041,499	$129,770,071	$152,368,800	

Source: City's financial management system (PeopleSoft).

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[7] Percentage based on one year because agency was not required to submit audits in prior years.
[8] Formerly known as Midtown Community Development Corporation.
[9] Formerly known as Swope Parkway Health Center.
[10] Percentage calculated over two years because most recent financial audit not yet submitted.

Analysis

Summary

Commercial auditors for nine non-municipal agencies receiving $100,000 or more in fiscal year 2006 reported accounting, internal control, or material compliance problems. For each of these agencies, we have prepared summaries of the specific weaknesses identified; the agency's planned corrective action; and the monitoring department's oversight activities. One agency did not provide its financial reports for our review and an additional 10 agencies did not provide an internal control review. Three of the 10 agencies' contracts did not include the reporting provisions required by city code.

The financial condition of 10 of the 13 agencies that received $1 million or more in funding in 2006 is of concern. We compiled financial indicators to evaluate an agency's liquidity, financial performance, and long-term stability.

We surveyed agencies about communications with and the selection of their commercial auditor and the compensation of the agencies' most highly compensated employees. Of the agencies that responded, all reported that their board or audit committee meets with the agency's commercial auditor at least annually; all but one reported board involvement in auditor selection and establishment of the auditor's scope of work; and most put their financial audit out to bid in the last five years. The amount of compensation paid to the most highly compensated agency officers, directors, or employees varied widely among agencies.

Agencies Not Submitting Reports

Only one agency, Twelfth Street Heritage Development Corporation, did not provide its financial audit for our review. This agency received almost $160,000 in city funding during fiscal year 2006.

City code requires that contracts with agencies include a provision that audits be submitted to the city within six months of the agency's fiscal year end.[11] Although its fiscal year ended more than six months earlier (May 31, 2006), the agency had not submitted copies of its financial audit by February 21, 2007. As a consequence, recent information on the accounting and internal control structures of this agency is not available to elected officials, the city manager, or monitoring departments.

[11] Kansas City Code of Ordinances Section 2-113 (4).

Some agencies submitting financial audits did not submit internal control reports. In addition to submitting a financial audit, Kansas City Code of Ordinances Section 2-113 requires departments to include in their contracts with outside agencies a requirement for the agencies to submit an internal control analysis[12] to the city auditor. Ten agencies did not provide internal control reports. (See Exhibit 2.) Staff from Public Works and Health told us this reporting requirement was not in their contracts with Bridging the Gap, Inc., Cabot Westside Health Center, and Metropolitan Ambulance Services Trust. When an agency does not provide or is not required to provide an internal control report, Councilmembers do not have information as to whether the agency's internal control structure is adequate to safeguard funds provided to it.

Exhibit 2. Agencies Not Submitting Internal Control Reports

Agency	Audit Year Ending	Funding
Bridging the Gap, Inc.	4/30/2006	$ 478,000
Cabot Westside Health Center	12/31/2005	536,014
Community Assistance Council, Inc.	12/31/2005	234,030
Community Movement for Urban Progress, Inc.[13]	6/30/2005	110,899[14]
Convention and Visitors Bureau of Greater Kansas City	12/31/2005	5,843,757
Hispanic Economic Development Corporation	5/31/2006	119,535
Kansas City Neighborhood Alliance	12/31/2005	126,490
Metropolitan Ambulance Services Trust	4/30/2006	12,300,000
Old Northeast, Inc.	12/31/2005	162,639
reStart, Inc.	12/31/2005	287,454
Total		$20,198,818

Sources: Annual agency audits performed by the agencies' commercial auditors for the years ended as indicated above.

Agencies with Reported Problems

Commercial auditors for nine of the agencies submitting audits had findings they were required to report. Commercial auditors issued a qualified opinion for one agency; made note of reportable conditions for eight agencies, one of which was also a material weakness; and reported noncompliance issues for four agencies. (See Exhibits 3 and 4.) (See Appendix A for a summary of the audit and internal control findings for all agencies and Appendix B for an explanation of the accounting terminology used in Exhibits 3 and 4.)

[12] Internal control reports communicate any deficiencies in an agency's internal control structure that may lead to the financial statements being materially misstated and assets not being adequately safeguard.
[13] Community Movement for Urban Progress, Inc. provided their June 30, 2005 financial audit after we presented our 2006 Outside Agencies report. The agency did not provide an internal control report.
[14] Amount of city funding for fiscal year 2005.

Exhibit 3. Type of Finding by Year[15]

	Number of Agencies				
Finding	2003	2004	2005	2006	2007
Qualified Opinion	2	1	2	3	1
Disclaimer of Opinion	1	0	0	0	0
Material Weakness	4	1	4	4	1
Reportable Condition	11	7	12	12	8
Noncompliance	5	4	6	8	4
Agencies Reviewed	45	46	41	45	42
Agencies with Findings	14	8	12	13	9
Percent of Agencies with Findings	31%	17%	29%	29%	21%

Sources: Annual agency commercial audits.

Exhibit 4. Agencies with Findings

Agency	Audit Year Ending	Qualified Opinion	Material Weakness	Reportable Condition	Non-Compliance
Black Economic Union of Greater Kansas City	12/31/2005				Yes
Children's Mercy Hospital	6/30/2005			Yes	Yes
Good Samaritan Project, Inc.	12/31/2005			Yes	
Kansas City Free Health Clinic	3/31/2006			Yes	
Samuel U. Rodgers Health Center, Inc.	9/30/2005			Yes	Yes
Swope Community Builders and Subsidiaries	12/31/2005			Yes	Yes
Swope Health Services	12/31/2005			Yes	
Tax Increment Financing Commission of Kansas City, Missouri	4/30/2006			Yes	
Twelfth Street Heritage Development Corporation	5/31/2005	Yes	Yes	Yes	

Sources: Annual agency commercial audits.

[15] The years within the exhibit indicate the year in which an agency's audit was included in this annual report. An agency audit can have multiple findings and an agency may submit more than one report in a review period.

Black Economic Union of Greater Kansas City (December 31, 2005)

	2004	2005	2006
Funding	$1,861,253	$297,313	$202,847
Qualified Opinion	Yes		
Material Weakness	Yes		
Reportable Condition	Yes		
Non-Compliance	Yes	Yes	Yes
Changed CPA	Yes	Yes	

Noncompliance:
Black Economic Union (BEU) was not in compliance with terms of a loan agreement with the Housing and Economic Development Financial Corporation (HEDFC) that required the establishment of an operating fund, a replacement reserve fund from loan proceeds, and monthly contributions to reserve funds.[16]

BEU is required to annually recertify residents of the low-income housing project to meet the criteria of the loan agreement. BEU's auditor could not find the 2005 recertifications.[16]

Management's response:
All HEDFC-related loans and activities are under the court-ordered control of a receiver. BEU continues to work with the receiver to resolve this issue.

BEU paid a consultant in 2004 to train a new asset manager regarding compliance with resident certification and the laws governing HOME-funded properties. BEU staff took steps to properly certify all existing tenants and will continue this process until the property is transferred.

City Development's response:
We asked City Development what actions they are taking to ensure the agency is addressing their findings; however City Development has not responded.

[16] Black Economic Union of Greater Kansas City, Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133, Schedule of Findings and Questioned Costs, Emerick & Company P.C., for the year ending December 31, 2005.

Children’s Mercy Hospital (June 30, 2005)

	2004	2005	2006
Funding	$3,207,411	$2,058,485	$1,411,697
Reportable Condition	Yes	Yes	
Non-Compliance	Yes	Yes	

Reportable condition and noncompliance:
Children's Mercy Hospital charged two disbursements tested by the hospital's auditor to the wrong grant number.[17]

Management’s response:
Children's Mercy Hospital will ask principal investigators and study coordinators to review disbursements at least annually and before the grant expires ensuring disbursements are allowable and allocable.

Health Department’s response:
The Health Department requested a progress report from Children’s Mercy Hospital on the corrective actions taken to address the findings.

[17] Children’s Mercy Hospital, Independent Auditors’ Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards, Schedule of Findings and Questioned Costs, KPMG LLP, for the year ending June 30, 2005.

Good Samaritan Project, Inc. (December 31, 2005)

	2004	2005	2006
Funding	$722,978	$652,027	$514,592
Reportable Condition	Yes	Yes	Yes
Changed CPA		Yes	

Reportable condition:
Due to the size of the accounting department, there is little segregation of accounting functions. However, additional costs may outweigh the benefits received.[18]

Management's response:
In a letter to the Federal Audit Clearinghouse, Good Samaritan Project, Inc. management stated the agency tries to mitigate the effect of inadequate segregation of accounting functions by having the board president and treasurer actively involved in and closely monitoring the financial management of the agency.

Health Department's response:
The Health Department asked Good Samaritan Project, Inc. for a progress report on the corrective actions taken to address the finding.

[18] Good Samaritan Project, Inc., Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133, Schedule of Findings and Questioned Costs, Schmidt, Cornish & Smith, CPA's, for the year ending December 31, 2005.

Kansas City Free Health Clinic (March 31, 2006)

	2004	2005	2006
Funding	$1,094,172	$1,162,085	$1,704,287
Reportable Condition	Yes	Yes	Yes

Reportable condition:
There is not an adequate segregation of duties in the revenue and cash receipts cycle.[19]

Management's response:
Kansas City Free Health Clinic acknowledges the internal control risk in the handling of cash receipts. The Clinic will work with the auditors attempting to implement mitigating procedures addressing this issue.

Health Department's response:
The Health Department requested a progress report from Kansas City Free Health Clinic on the corrective actions the agency is taking to address the finding.

[19] Kansas City Free Health Clinic, Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards, Schedule of Findings and Questioned Costs, BKD LLP, for the year ending March 31, 2006.

Samuel U. Rodgers Health Center, Inc. (September 30, 2005)

	2004	2005	2006
Funding	$612,498	$457,860	$1,810,185
Reportable Condition	Yes	Yes	Yes
Non-Compliance	Yes	Yes	Yes
Changed CPA		Yes	

Reportable condition and noncompliance:
Samuel U. Rodgers Health Center has not been depositing federal fund drawdowns into an interest bearing account.[20]

Samuel U. Rodgers Health Center, Inc. has no formalized control procedures for reviewing and evaluating specific past-due accounts; rebilling denied claims in a timely manner; and periodically reviewing the accounts receivable aging reports to determine bad debts. Additionally, the Center did not routinely prepare and submit billings for patient services.[20]

Management's response:
Samuel U. Rodgers Health Center management will deposit federal fund drawdowns into an interest bearing account and will implement the procedures necessary to review patient services billing to follow up on past-due receivables.

Health Department's response:
The Health Department requested a progress report from Samuel U. Rodgers Health Center on the corrective actions the agency is taking to address the findings.

[20] Samuel U. Rodgers Health Center, Inc., Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, Report on Compliance with Requirements Applicable to each Major Program and on Internal Control over Compliance in Accordance OMB Circular A-133, Schedule of Findings and Questioned Costs, Goldstein, Golub, Kessler, LLP, for the year ending September 30, 2005.

Swope Community Builders and Subsidiaries (December 31, 2005)

	2004	2005	2006
Funding	$717,564	$540,719	$431,122
Material Weakness		Yes	
Reportable Condition	Yes	Yes	Yes
Non-Compliance	Yes	Yes	Yes
Changed CPA			Yes

Reportable condition:
One individual records the cash receipts, prepares the control totals, posts the receipts and deposit slips, prepares the monthly bank reconciliations, and has access to write-off bad debts. One individual has access to blank checks, prepares the checks, reconciles the bank accounts, and has access to edit vendor information.[21]

All general ledger accounts were not reconciled to the subsidiary records on a monthly basis, requiring significant adjustments at year-end for transactions occurring through the year in the accounts receivable, accrual, inter-company and fixed asset ledgers.[21]

Management response:
Swope Community Builders reports segregating duties in each of the key accounting functions and analyzing and reconciling balance sheet accounts on a monthly basis.

Noncompliance:
Swope Community Builders did not use a formal bid process to select a general contractor for the Parkway Apartment project, violating the procurement requirements of Office of Management and Budget (OMB) Circular A-110. Additionally, the agreements with the general contractor did not include a signed certificate of non-debarment certification.[22]

Management's response:
Swope Community Builders reports establishing policies ensuring all contracts are in compliance with OMB Circular A-110 procurement standards and include a certification of non-debarment.

[21] Swope Community Builders and Subsidiaries, Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Others Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, Schedule of Findings and Questioned Costs, McGladrey & Pullen, LLP, for the year ending December 31, 2005.
[22] Swope Community Builders and Subsidiaries, Report of Independent Auditors on Compliance With Requirements Applicable to Each Major Program and on Internal Control over Compliance With OMB Circular A-133, Schedule of Findings and Questioned Costs, McGladrey & Pullen, LLP, for the year ending December 31, 2005.

City Development's response:
We asked City Development what actions they are taking to ensure the agency is addressing their findings; however City Development has not responded.

Swope Health Services (December 31, 2005)

	2004	2005	2006
Funding	$790,322	$606,028	$1,313,983
Reportable Condition			Yes
Changed CPA			Yes

Reportable condition:
Swope Health Services does not have a system in place ensuring vendors used outside of the group purchasing organization have not been suspended or debarred from participation in federal programs.[23]

Management's response:
Swope Health Services plans to have vendors assert in writing that they are not suspended or debarred from participation in federal programs.

Health's response:
The Health Department asked Swope Health Services to describe actions the agency is taking to address the reportable condition.

[23] Swope Health Services, Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on Supplementary Schedule of Expenditures of Federal Awards, Schedule of Findings and Questioned Costs, McGladrey & Pullen, LLP, for the year ending December 31, 2005.

Tax Increment Financing Commission of Kansas City, Missouri (April 30, 2006)

	2004	2005	2006
Funding	$34,606,336	$35,324,959	$38,388,136
Reportable Condition	Yes	Yes	Yes

Reportable condition:
The Tax Increment Financing (TIF) Commission does not have an adequate system in place to record and reconcile the amount of tax increment financing receivables from the various taxing authorities.[24]

Management's response:
TIF Commission staff told us the city's finance director allowed TIF's external auditor to sign a confidentiality agreement and audit the information the city gave to the TIF Commission as the tax liability.

Finance's response:
The director of finance allowed the Commission's external auditor to sign a confidentiality statement to audit the methodology in generating the Commission's liability.

[24] Tax Increment Financing Commission of Kansas City, Missouri, Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, Cochran, Head & Co., P.C. for the year ending April 30, 2006.

Twelfth Street Heritage Development Corporation (May 31, 2005)

	2004	2005	2006
Funding	$163,477	$150,579	$159,567
Qualified Opinion		Yes	N/P[25]
Material Weakness		Yes	N/P
Reportable Condition		Yes	N/P
Changed CPA		Yes	N/P

Qualified opinion:
During fiscal year 2005, the Twelfth Street Heritage Development Corporation (TSHDC) wrote off several properties included in the construction-in-progress account in the amount of $145,441 and the related liability. These assets were recorded during the previous period based on reports obtained from the Housing and Economic Development Financial Corporation (HEDFC). TSHDC obtained the loans from HEDFC to acquire land and other goods and services for development activities of single family housing. HEDFC recorded all payments made to fund the houses as a loan to TSHDC. When the houses are sold to an eligible buyer, the house sale proceeds would pay off the loan and any remaining loan balance would be forgiven to TSHDC as a grant or gap funding provided the latter fulfilled its obligation per the certification of commitment. TSHDC's auditors were not able to validate the write off of the debt as they could not find any approval of the debt forgiveness subsequent to proper fulfillment of the contract between HEDFC and TSHDC. The auditors were also unable to confirm the current status of these liabilities from the creditor and the validity of the accounts through the use of alternative procedures. [26]

Qualified opinion, material weakness, and reportable condition:
TSHDC did not maintain sufficient records of its construction-in-progress activity and the associated loans. The progress billings and cost accumulations for the construction of single family housing have not been recorded as construction in progress and the related liability as a loan payable. TSHDC records the cost of houses sold after the projects were completed and sold using information from the title company at the time of the sale. TSHDC's auditors were unable to validate third party information and unable to determine the validity of the amounts through the use of alternative procedures.[27]

[25] N/P indicates the financial audit and internal control analysis were not provided.
[26] Twelfth Street Heritage Development Corporation, Independent Auditor's Report, JMA Chartered, for the year ending May 31, 2005.
[27] Twelfth Street Heritage Development Corporation, Independent Auditor's Report, Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Consolidated Financial Statements Performed in

Management's response:
Twelfth Street Heritage Development Corporation is reportedly adjusting its record keeping to record financial activity on each property as it occurs; reviewing files quarterly; and monitoring construction-financing monthly.

Reportable condition:
Out of a sample of ten disbursements made by TSHDC, the auditors noted one payment where the supporting documentation did not include the standard check request form where the president/CEO approves the payment and the account is coded. The accounting entries were not correct.[28]

The Corporation does not have a process to record in-kind contributions or unconditional promises to give.[28]

Management response:
The president/CEO will monitor processing of requests for payments and will approve forms to document in-kind contributions.

City Development's response:
Twelfth Street Heritage Development Corporation provided City Development descriptions of actions they are taking to address their findings.

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Financial Analysis for Liquidity, Performance, and Long-Term Stability

The financial condition of 10 of the 13 agencies that received $1 million or more of funding in 2006 is of concern. Six of these agencies should be watched as ratios for two of three financial indicators were not met or financial information was not provided. Results for four of the remaining agencies are mixed as one of the three indicators were not met.

The city has a significant stake in agencies that receive more than $1 million dollars in funding. When one of these agencies experiences financial problems, there can be serious ramifications for the city. To keep the Council informed, we calculated several financial ratios or

Accordance with Government Auditing Standards, Description of Findings, JMA Chartered, for the year ending May 31, 2005.

[28] Twelfth Street Heritage Development Corporation, Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Consolidated Financial Statements Performed in Accordance with Government Auditing Standards, Description of Findings, JMA Chartered, for the year ending May 31, 2005.

measures for the agencies receiving $1 million or more from the city during fiscal year 2006.

We evaluated the financial condition of the outside agencies based on three broad financial indicators. These indicators were selected to examine liquidity (current ratio and days of cash on hand), performance (operating margin and change in unrestricted net assets), and long-term stability (debt to net assets, fixed asset financing for hospitals). Because no single ratio gives a complete picture of the financial health of an organization, ratios and financial data should be viewed together to obtain an overall sense of an organization. (Appendix C contains additional information on the financial indicators. Each is briefly explained and the method of calculation defined.)

Criteria for Financial Conditions

We established evaluation criteria to determine whether an agency's financial condition was positive, mixed, or needs to be watched. We calculated financial ratios and measures and compared the results with selected criteria. (See Exhibit 5.)

Exhibit 5. Financial Condition Indicators

Indicator	Financial Ratio/Measure	Criteria
Liquidity	Current Ratio	Greater than 1
Liquidity	Cash on Hand	More than 30 days of cash
Performance	Unrestricted Net Assets	Increase
Performance	Operating Margin	Positive
Long-Term Stability	Debt to Net Asset Ratio or Fixed Asset Financing Ratio[29]	Less than 50 percent

If ratios for all three indicators (liquidity, performance, and long-term stability) met our criteria, we consider the agency's financial position to be positive. If criteria for one of the indicators were not met, we consider the agency's financial position to be mixed. If two indicators were not met or an agency did not provide their financial report for inclusion in our analysis, we believe the agency should be watched. Six of the agencies receiving $1million or more from the city in 2006 should be watched based on our analysis. (See Exhibit 6.)

[29] For hospitals the long-term stability indicator is measured by the fixed asset financing ratio.

Exhibit 6. Financial Condition of Agencies Receiving $1 Million in 2006

Agency	Financial Condition
Children's Mercy Hospital	Mixed
Community Development Corporation of Kansas City	Watch
Convention and Visitors Bureau of Greater Kansas City	Watch
Economic Development Corporation of Kansas City, Mo.	Watch
Friends of the Zoo, Inc., of Kansas City, Missouri	Positive
Kansas City Area Transportation Authority	Positive
Kansas City Free Health Clinic	Mixed
Metropolitan Ambulance Services Trust	Mixed
Samuel U. Rodgers Health Center, Inc.	Watch
Swope Health Services	Positive
Tax Increment Financing Commission of Kansas City, Mo.	Mixed
Truman Medical Center, Inc.	Watch
Union Station Kansas City, Inc.	Watch

Source: City Auditor's Office.

Children's Mercy Hospital's financial condition is mixed. While the agency's liquidity and long-term stability indicators are positive, operating margin, one of the performance indicators was negative. (See Exhibit 7.)

Exhibit 7. Children's Mercy Hospital Financial Ratios

	Audit Year Ending				
Measure	6/30/02	6/30/03	6/30/04	6/30/05	6/30/06
Current Ratio	2.49	1.89	2.27	2.18	2.47
Days of Cash on Hand	46	39	36	19	31
Change in Unrestricted Net Assets	$1,867,083	$15,092,662	($103,739,358)	$4,825,014	$14,720,391
Operating Margin[30]	(1%)	(1%)	(1%)	(1%)	(1%)
Fixed Asset Financing[30]	0.56	0.44	0.38	0.37	0.37

Sources: Commercial auditor's annual agency audits and City Auditor's Office calculations.

The Community Development Corporation of Kansas City's financial condition should be watched. While the agency's performance indicators are positive, the agency's liabilities are nearly equal to its net assets, the agency has just over two weeks of cash on hand, and its current ratio is below one. (See Exhibit 8.)

[30] Because hospitals are unique from other non-municipal agencies, we used two different ratios for hospitals. We calculated the agency's fixed asset financing ratio in place of the debt to net assets ratio to determine its liquidity indicator. Also, we calculated operating margin by dividing operating income by the sum of unrestricted revenues and non-operating income.

Exhibit 8. Community Development Corporation of Kansas City Financial Ratios

Measure	Audit Year Ending 2/28/02	2/28/03	2/29/04	2/28/05	2/28/06
Current Ratio	1.17	0.68	0.09	0.38	0.48
Days of Cash on Hand	32	64	10	22	17
Change in Unrestricted Net Assets	$9,536	$2,267,471	$183,777	$814,879	$873,786
Operating Margin	1%	57%	8%	39%	30%
Debt to Net Assets	1.42	0.84	0.73	0.53	1.00

Sources: Commercial auditor's annual agency audits and City Auditor's Office calculations.

The Convention and Visitors Bureau of Greater Kansas City's financial condition should be watched. While the agency's performance indicators are positive, the agency's days of cash on hand and long-term stability indicators did not meet our criteria. (See Exhibit 9.)

Exhibit 9. Convention and Visitors Bureau of Greater Kansas City Financial Ratios

Measure	Audit Year Ending 4/30/02	4/30/03	12/31/03[31]	12/31/04	12/31/05
Current Ratio	2.79	1.73	0.98	0.85	1.20
Days of Cash on Hand	27	15	36	18	20
Change in Unrestricted Net Assets	($192,498)	($260,019)	($609,340)	($80,846)	$467,190
Operating Margin	(3%)	(4%)	(13%)	(1%)	5%
Debt to Net Assets	2.20	4.01	Negative[32]	Negative[32]	17.39

Sources: Commercial auditor's annual agency audits and City Auditor's Office calculations.

The Economic Development Corporation of Kansas City, Missouri's financial condition should be watched. The agency's liquidity, performance, and long-term stability indicators did not meet our criteria. (See Exhibit 10.)

[31] For the eight months ending December 31, 2003.
[32] The Convention and Visitors Bureau of Greater Kansas City reported negative net assets of $266,595 as of December 31, 2003 and negative net assets of $347,441 as of December 31, 2004.

Exhibit 10. Economic Development Corporation of Kansas City, Missouri, Financial Ratios

Measure	Audit Year Ending 4/30/02	4/30/03	4/30/04	4/30/05	4/30/06
Current Ratio	0.60	0.51	1.08	0.73	0.20
Days of Cash on Hand	7	15	6	8	5
Change in Net Assets	($239,433)	($296,684)	($182,845)	$249,040	($447,147)
Operating Margin	(8%)	(8%)	(5%)	5%	(12%)
Debt to Net Assets	1.40	Negative[33]	Negative[33]	Negative[33]	Negative[33]

Sources: Commercial auditor's annual agency audits and City Auditor's Office calculations.

The Friends of the Zoo, Inc., of Kansas City, Missouri's financial condition is positive. The agency's liquidity, performance, and long-term stability indicators are all positive. (See Exhibit 11.)

Exhibit 11. Friends of the Zoo, Inc., of Kansas City, Missouri, Financial Ratios

Measure	Audit Year Ending 12/31/01	12/31/02	12/31/03	12/31/04	12/31/05
Current Ratio	2.81	5.70	5.01	5.87	8.43
Days of Cash on Hand	244	103	115	135	146
Change in Unrestricted Net Assets	($629,400)	($490,820)	($1,866,533)	$67,895	$95,890
Operating Margin	(17%)	(3%)	(16%)	1%	1%
Debt to Net Assets	0.70	0.59	0.74	0.50	0.31

Sources: Commercial auditor's annual agency audits and City Auditor's Office calculations.

The Kansas City Area Transportation Authority's financial condition is positive. The agency's liquidity, performance, and long-term stability indicators are all positive. (See Exhibit 12.)

Exhibit 12. Kansas City Area Transportation Authority Financial Ratios

Measure	Audit Year Ending 12/31/01	12/31/02	12/31/03	12/31/04	12/31/05
Current Ratio	1.42	1.63	1.51	1.93	1.22
Days of Cash on Hand	246	281	253	286	345
Change in Unrestricted Net Assets	($1,630,252)	$10,327,361	$3,861,489	$10,864,745	$14,280,908
Operating Margin	(3%)	14%	6%	14%	17%
Debt to Net Assets	0.23	0.21	0.17	0.13	0.14

Sources: Commercial auditor's annual agency audits and City Auditor's Office calculations.

[33] The Economic Development Corporation of Kansas City, Missouri reported negative net assets of $79,580 as of April 30, 2003; negative net assets of $262,425 as of April 30, 2004; negative net assets of $13,385 as of April 30, 2005; and negative net assets of $460,532 as of April 30, 2006.

Kansas City Free Health Clinic's financial condition is mixed. While the agency's performance and long-term stability indicators remained strong, the agency has less than 30 days of cash on hand. (See Exhibit 13.)

Exhibit 13. Kansas City Free Health Clinic Financial Ratios

Measure	Audit Year Ending 3/31/02	3/31/03	3/31/04	3/31/05	3/31/06
Current Ratio	6.59	4.86	6.34	5.37	4.23
Days of Cash on Hand	53	54	42	36	27
Change in Unrestricted Net Assets	$1,745,178	$145,756	$14,790	$30,314	$44,832
Operating Margin	27%	3%	0.24%	0.48%	1%
Debt to Net Assets	0.24	0.21	0.15	0.14	0.09

Sources: Commercial auditor's annual agency audits and City Auditor's Office calculations.

Metropolitan Ambulance Services Trust's financial condition is mixed. While MAST's liquidity and performance indicators are positive, the long-term stability indicator is negative as MAST's debt continues to be greater than net assets. (See Exhibit 14.)

Exhibit 14. Metropolitan Ambulance Services Trust Financial Ratios

Measure	Audit Year Ending 4/30/02	4/30/03	4/30/04	4/30/05	4/30/06
Current Ratio	1.64	1.19	1.67	2.07	2.69
Days of Cash on Hand	2	0.01	0.19	6	69
Change in Net Assets	($3,676,439)	($163,599)	$2,370,676	$20,601	$512,700
Operating Margin	(10%)	(0.6%)	7%	0.1%	2%
Debt to Net Assets	1.80	1.83	1.25	1.08	1.16

Sources: Commercial auditor's annual agency audits and City Auditor's Office calculations.

The financial condition for Samuel U. Rodgers Health Center, Inc. should be watched. The agency did not meet our criteria for any of the financial measures calculated. (See Exhibit 15.)

Exhibit 15. Samuel U. Rodgers Health Center, Inc. Financial Ratios

Measure	Audit Year Ending 9/30/01	9/30/02	9/30/03	9/30/04	9/30/05
Current Ratio	1.68	1.17	1.15	1.03	0.55
Days of Cash on Hand	11	9	7	7	3
Change in Unrestricted Net Assets	($19,119)	($502,228)	$62,778	($346,791)	($1,012,607)
Operating Margin	0%	(4%)	0%	(3%)	(8%)
Debt to Net Assets	0.40	0.93	1.04	1.46	2.28

Sources: Commercial auditor's annual agency audits and City Auditor's Office calculations.

The financial condition for Swope Health Services is positive. The agency's liquidity, performance, and long-term stability indicators are all positive. (See Exhibit 16.)

Exhibit 16. Swope Health Services Financial Ratios

Measure	Audit Year Ending 12/31/01[34]	12/31/02[34]	12/31/03[35]	12/31/04[35]	12/31/05[35]
Current Ratio	4.90	3.45	3.64	3.73	4.70
Days of Cash on Hand	117	109	107	143	115
Change in Unrestricted Net Assets	$1,869,423	($1,221,312)	$776,936	$428,482	$980,903
Operating Margin	7%	(4%)	2%	1%	3%
Debt to Net Assets	0.22	0.26	0.31	0.33	0.14

Sources: Commercial auditor's annual agency audits and City Auditor's Office calculations.

Tax Increment Financing Commission of Kansas City, Missouri's financial position is mixed. While liquidity and performance indicators met our criteria, the long-term stability indicator did not meet our criteria. The agency's debt is more than six times greater than net assets. (See Exhibit 17.)

Exhibit 17. Tax Increment Financing Commission of Kansas City, Missouri, Financial Ratios

Measure	Audit Year Ending 4/30/02	4/30/03	4/30/04	4/30/05	4/30/06
Current Ratio	76.79	1.67	1.79	1.37	2.84
Days of Cash on Hand	69	179	170	187	275
Change in Unrestricted Net Assets	($5,680,617)	$10,420,389	$5,025,148	$19,308,357	$19,696,063
Operating Margin	(19%)	27%	10%	30%	30%
Debt to Net Assets	12.76	10.24	8.36	7.84	6.20

Sources: Commercial auditor's annual agency audits and City Auditor's Office calculations.

Truman Medical Center's financial position should be watched. While Truman's long-term stability indicator is positive, the agency's liquidity indicators are mixed, and performance indicators are negative. (See Exhibit 18.)

[34] Ratios based on financial statements of the parent agency (Swope Health Services).
[35] Ratios based on the consolidated financial statements of Swope Health Services.

Exhibit 18. Truman Medical Center, Inc. Financial Ratios

Measure	Audit Year Ending				
	4/30/02	4/30/03	6/30/04[36]	6/30/05	6/30/06
Current Ratio	2.39	2.32	2.09	2.11	1.67
Days of Cash on Hand	14	19	13	20	10
Change in Unrestricted Net Assets	$218,589	$1,610,112	$1,129,969	$523,687	($9,638,343)
Operating Margin[37]	(1%)	0.2%	(1%)	0.3%	(5%)
Fixed Asset Financing[37]	0.33	0.60	0.53	0.48	0.43

Sources: Commercial auditor's annual agency audits and City Auditor's Office calculations.

Union Station Kansas City's financial condition should be watched. While Union Station's long-term stability indicator met our criteria, its liquidity and performance indicators did not. (See Exhibit 19.)

Exhibit 19. Union Station Kansas City, Inc. Financial Ratios

Measure	Audit Year Ending				
	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05
Current Ratio	1.66	1.61	1.52	0.67	0.37
Days of Cash on Hand	351	188	30	19	24
Change in Unrestricted Net Assets	($13,665,428)	($8,134,530)	($16,720,793)	($13,662,111)	($5,706,500)
Operating Margin	(66%)	(35%)	(148%)	(121%)	(30%)
Debt to Net Assets	0.22	0.15	0.15	0.22	0.24

Sources: Commercial auditor's annual agency audits and City Auditor's Office calculations.

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Agency Accounting and Governance Practices

Outside agencies do the public's business, accept significant public funding, and are responsible to a range of stakeholders. To obtain a better understanding of the governance practices of these agencies, we conducted a survey. Most of our questions were related to communications with and the engagement of the agency's commercial auditor, with a final survey question related to officer, director and employee compensation. All but one agency completed our survey. (See Exhibit 20.) Of the responding agencies, all reported that their board or

[36] The 2004 financial ratios for Truman Medical Center, Inc. are based on a 14-month period.
[37] Because hospitals are unique from other non-municipal agencies, we used two different ratios for hospitals. We calculated the agency's fixed asset financing ratio in place of the debt to net assets ratio to determine its liquidity indicator. Also, we calculated operating margin by dividing operating income by the sum of unrestricted revenues and non-operating income.

audit committee meets with the agency's commercial auditor at least annually; all but one reported board involvement in auditor selection and

establishment of the commercial auditor's scope of work; and most put their financial audit out for bid in the last five years. The level of compensation paid to the most highly compensated agency officers, directors, or employees varied widely among agencies.

Auditing Is Important and Requires Board Involvement

The agencies included in this report are required to hire a certified public accountant to audit their financial statements and a qualified professional to conduct an internal control analysis. An effective commercial audit of an agency's financial statements determines the accuracy of financial record keeping; provides a thorough independent review of the agency's financial processes, procedures, and controls; and provides transparency to those funding the agency. Audits should provide objective information to the individuals and entities that use and support an agency as well as management and the agency's governing board.

Auditors should communicate directly with board members. Good communication is vital between the agency's board members and their commercial auditors. It is important that commercial auditors communicate critical accounting policies and practices used by the agency's management to the agency's board or appropriate board committee. Every agency that returned a survey reports meetings between the agency's board members or audit committee and their commercial auditors taking place at least once a year.

Board members should be involved in audit selection. Good governance practices suggests that a member of an agency's board of directors or audit committee of the board of directors should be involved in selection of an agency's commercial auditors and defining the auditor's scope of work. We asked agencies who was responsible for selecting the accounting firms and determining the firms' scope of services. All but one of the agencies surveyed report having either a board or committee involved in the selection of the auditor and determining the scope of audit services.

Audit services should be bid at least every five years. Good governing practices recommend agencies rotate external auditing firms or managing partners at least every five years. Rotating external auditors increases chances that an agency's financial practices will be closely examined. We asked agencies when their external audit was last put out to bid. All but five agencies have put their financial audit out for bid in the last five years.

Compensation Varies Widely

The level of compensation paid to the most highly compensated agency officers, directors, or employees varied widely among agencies. The average annual compensation paid to the three most highly compensated individuals by an agency ranged from over $900,000 to less than $30,000. Disclosure of compensation can provide stakeholders with a clearer picture of how agency resources are used.

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Exhibit 20. Financial Oversight Questionnaire Responses

Agency	Year Audit Last Bid	Times/year external auditor meets with board/committee (minimum)[38]	Individual responsible for selecting audit firm	Individual responsible for determining scope of audit	Average compensation of three most highly paid
American Jazz Museum, Inc.	2004	Once	Board of Directors	Executive Director	$83,137
Black Economic Union of Greater Kansas City	2004	Twice	Board of Directors	Board of Directors	99,623
Bridging the Gap, Inc.	2006	Once	Board of Directors	Director of Operations and Chief Executive Officer	63,115
Cabot Westside Health Center	2005	Once	Audit Committee and Finance Committee	Audit Committee and Finance Committee	130,258
Children's Mercy Hospital	2002	Twice	Audit Committee	Audit Committee	903,897
Community Assistance Council, Inc.	2003	Once	Director/Budget and Finance Committee	Director/ Budget and Finance Committee	42,000[39]
Community Development Corporation of Kansas City	2003	Once	Finance and Monitoring Committee	Finance and Monitoring Committee	63,333
Community LINC, Inc.	2006	Twice	Finance Committee	Finance Committee	54,667
Convention and Visitors Bureau of Greater Kansas City	1997	Once	Finance Committee	Finance Committee	152,078
Economic Development Corporation of Kansas City, Mo.	2006	Once	Audit Committee	Audit Committee	124,983
Friends of the Zoo, Inc., of Kansas City, Missouri	2003	Once	Audit Committee	Audit Committee	112,138
Good Samaritan Project, Inc.	2004	Once	Board Treasurer and Executive Committee	Board Treasurer and Executive Committee	55,742
Greater Kansas City Housing Information Center	2005	Twice	Audit Committee and Executive Director	Audit Committee and Executive Director	44,104[40]
Guadalupe Center, Inc.	2004	Once	Audit Committee	Audit Committee	68,333
Hispanic Economic Development Corporation	2006	Once	Committee and Executive Director	Committee and Executive Director	80,000[39]

[38] In addition to formal meetings with the external auditor, several agencies responded they also meet with the auditor as needed.
[39] Based on one employee.
[40] Based on two employees.

Agency	Year Audit Last Bid	Times/year external auditor meets with board/committee (minimum)[38]	Individual responsible for selecting audit firm	Individual responsible for determining scope of audit	Average compensation of three most highly paid
Hope House, Inc.	2005	Once	Board of Directors' Finance Committee	Board of Directors' Finance Committee	$87,066
Kansas City Area Transportation Authority	2005	Once	Board of Commissioners	Board of Commissioners	122,497
Kansas City Free Health Clinic	2004	Once	Board of Directors	Board of Directors	114,397
Kansas City Neighborhood Alliance	1997	Twice	Board of Directors' Finance Committee	Board of Directors' Finance Committee	91,811
Legal Aid of Western Missouri	1999	Once	Audit/Finance Committee	Audit/Finance Committee	103,659
Liberty Memorial Association	2006	Once	Board of Governors	Board of Governors	96,333
Main Street Development Corporation	2003	Once	Board Executive Committee	Board Executive Committee	27,000
Mattie Rhodes Counseling and Art Center	1997	Once	Audit Committee	Audit Committee	61,833
Metropolitan Ambulance Services Trust	2006	Twice	Audit Committee	Audit Committee	105,521
Newhouse, Inc.	2004	Once	Board of Directors	Board of Directors	64,726
Northland Health Care Access	2005	Once	Finance Committee	Finance Committee	42,500[41]
Northland Neighborhoods, Inc.	2004	Once	Board of Directors	Board of Directors	63,833
Old Northeast, Inc.	2004	Once	Executive Committee	Executive Committee	42,617
Operation Breakthrough, Inc.	2004	Once	Chief Financial Officer	Chief Financial Officer	58,497
Planned Industrial Expansion Authority of Kansas City, Mo.	2003	Once	Board of Directors	Board of Directors	60,000[42]
reStart, Inc.	2006	Once	Finance Committee	Finance Committee	52,257
Rose Brooks Center, Inc.	2004	Twice	Finance/Audit Committee, Executive Director and Chief	Finance/Audit Committee, Executive Director and Chief	88,279

[41] Based on two employees.
[42] Based on one employee.

Agency	Year Audit Last Bid	Times/year external auditor meets with board/committee (minimum)[38]	Individual responsible for selecting audit firm Financial Officer	Individual responsible for determining scope of audit Financial Officer	Average compensation of three most highly paid
Samuel U. Rodgers Health Center, Inc.	Questionnaire not returned				
SAVE, Inc.	2003	Once	Board Finance Committee	Board Finance Committee	$68,468
Swope Community Builders	2005	Twice	Board Finance/Audit Committee	Board Finance/Audit Committee	100,576
Swope Health Services	2005	Twice	Board Finance/Audit Committee	Board Finance/Audit Committee	236,218
Tax Increment Financing Commission of Kansas City, Mo.	2006	Once	Audit committee	Audit committee	N/A[43]
Truman Medical Center, Inc.	2006	Twice	Audit Committee	Audit Committee	500,352
Twelfth Street Heritage Development Corporation	2004	Once	Finance Committee	Finance Committee	40,772
Union Station Kansas City, Inc.	2000	Twice	Audit Committee	Audit Committee	125,440
United Services Community Action Agency	2007	Twice	Board of Directors	Board of Directors	70,454

Sources: Agencies' Financial Oversight Questionnaire Responses and Form 990s.

[43] Agency has no paid employees.

Appendix A

Summary of Reports Reviewed and Findings of Commercial Auditors

Summary of Reports Reviewed and Findings of Each Agency's Commercial Auditors

Agency	Audit Year Ending	Type of Opinion	Material Weakness[44]	Reportable Condition[44]	Non-Compliance[45]
American Jazz Museum, Inc.	4/30/2006	Unqualified	No	No	No
Black Economic Union of Greater Kansas City	12/31/2005	Unqualified	No	No	***Yes***
Bridging the Gap, Inc.	4/30/2006	Unqualified	N/P	N/P	N/P
Cabot Westside Health Center	12/31/2005	Unqualified	N/P	N/P	N/P
Children's Mercy Hospital	6/30/2005	Unqualified	No	***Yes***	***Yes***
Children's Mercy Hospital	6/30/2006	Unqualified	No	No	No
Community Assistance Council, Inc.	12/31/2005	Unqualified	N/P	N/P	N/P
Community Development Corporation of Kansas City	2/28/2006	Unqualified	No	No	No
Community LINC, Inc.	12/31/2005	Unqualified	No	No	No
Community Movement for Urban Progress, Inc.	6/30/2005	Unqualified	N/P	N/P	N/P
Convention and Visitors Bureau of Greater Kansas City	12/31/2005	Unqualified	N/P	N/P	N/P
Economic Development Corporation of Kansas City, Mo.	4/30/2006	Unqualified	No	No	No
Friends of the Zoo, Inc., of Kansas City, Missouri	12/31/2005	Unqualified	No	No	N/P
Good Samaritan Project, Inc.	12/31/2005	Unqualified	No	***Yes***	No
Greater Kansas City Housing Information Center	12/31/2005	Unqualified	No	No	No
Guadalupe Center, Inc.	12/31/2005	Unqualified	No	No	No
Hispanic Economic Development Corporation	5/31/2006	Unqualified	N/P	N/P	N/P
Hope House, Inc.	9/30/2005	Unqualified	No	No	No
Kansas City Area Transportation Authority	12/31/2005	Unqualified	No	No	No
Kansas City Free Health Clinic	3/31/2006	Unqualified	No	***Yes***	No
Kansas City Neighborhood Alliance	12/31/2005	Unqualified	N/P	N/P	N/P
Legal Aid of Western Missouri	12/31/2005	Unqualified	No	No	No
Liberty Memorial Association	12/31/2005	Unqualified	No	No	N/P
Main Street Corridor Development Corporation	12/31/2005	Unqualified	No	No	No
Mattie Rhodes Counseling and Art Center	12/31/2005	Unqualified	No	No	N/P
Metropolitan Ambulance Services Trust	4/30/2006	Unqualified	N/P	N/P	N/P
Newhouse, Inc.	12/31/2005	Unqualified	No	No	No
Northland Health Care Access	12/31/2005	Unqualified	No	No	N/P
Northland Neighborhoods, Inc.	5/31/2006	Unqualified	No	No	No
Old Northeast, Inc.	12/31/2005	Unqualified	N/P	N/P	N/P
Operation Breakthrough, Inc.	10/31/2005	Unqualified	No	No	No

[44] N/P indicates an internal control report was not prepared.
[45] N/P indicates a compliance report was not prepared. Only agencies spending at least $500,000 annually in federal funding must comply with the federal Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, which requires agencies to have reports on internal controls over financial reporting and compliance with laws, regulations, and contract or grant agreement provisions.

Agency	Audit Year Ending	Type of Opinion	Material Weakness[46]	Reportable Condition[46]	Non-Compliance[47]
Planned Industrial Expansion Authority of Kansas City, Mo.	4/30/2006	Unqualified	No	No	No
reStart, Inc.	12/31/2005	Unqualified	N/P	N/P	N/P
Rose Brooks Center, Inc.	6/30/2006	Unqualified	No	No	No
Samuel U. Rodgers Health Center, Inc.	9/30/2005	Unqualified	No	***Yes***	***Yes***
SAVE, Inc. and Affiliates	6/30/2006	Unqualified	No	No	No
Swope Community Builders and Subsidiaries	12/31/2005	Unqualified	No	***Yes***	***Yes***
Swope Health Services	12/31/2005	Unqualified	No	***Yes***	No
Tax Increment Financing Commission of Kansas City, Mo.	4/30/2006	Unqualified	No	***Yes***	No
Truman Medical Center, Inc.	6/30/2006	Unqualified	No	No	No
Twelfth Street Heritage Development Corporation	5/31/2005	***Qualified***	***Yes***	***Yes***	No
Union Station Kansas City, Inc.	12/31/2005	Unqualified	No	No	N/P
United Services Community Action Agency	9/30/2005	Unqualified	No	No	No

Sources: Annual agency audits performed by the agencies' commercial auditors for the years ended as indicated above.

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[46] N/P indicates an internal control report was not prepared.

[47] N/P indicates a compliance report was not prepared. Only agencies spending at least $500,000 annually in federal funding must comply with the federal Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, which requires agencies to have reports on internal controls over financial reporting and compliance with laws, regulations, and contract or grant agreement provisions.

Appendix B

Definitions of Deficiencies

Qualified Opinions

Auditors issue a qualified opinion when they see departures from generally accepted accounting principles (GAAP) or have major limitations on the scope of an audit, such as might occur from missing documentation. Except for the effects of the matters to which the qualification relates, the financial statements fairly present, in all material respects, the entity's financial position, results of operations, and cash flow in conformity with generally accepted accounting principles.

Material Weaknesses

A material weakness is a significant deficiency in which the design or operation of specific internal controls does not ensure that errors or irregularities material to the financial statements will be detected promptly by employees in the normal course of their work. A material weakness is also a reportable condition; however, reportable conditions are not always serious enough to be material weaknesses.

Reportable Conditions

Reportable conditions are deficiencies in the design or operation of an entity's internal control structure that could adversely affect the entity's ability to record and report financial data. Reportable conditions are of a less serious nature than material weaknesses.

Noncompliance

Noncompliance occurs when an entity does not execute transactions in conformity with laws, regulations, provisions of contracts, awards, or grant agreements, or other compliance requirements. Non-municipal agencies that expend federal awards of at least $500,000 in direct or pass through funding in a year, fall under the reporting requirements of OMB A-133, which requires an audit, including an examination of compliance. Auditors for agencies not falling under OMB A-133 requirements may evaluate compliance as part of their examination of internal controls.

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Appendix C

Financial Analysis Methodology

Not everyone calculates ratios using the same definitions. The definitions used for our analysis came from *Financial Management for Public, Health and Not-for-Profit Organizations* by Steven A. Finkler[48] and from the Center for Healthcare Industry Performance Studies for our calculation of the fixed asset financing ratio and operating margin for hospitals.

Liquidity Indicators

Liquidity ratios assess short-term risks. They focus on whether an organization has enough cash and liquid resources to meet near term obligations. We calculated two liquidity ratios, the current ratio and the days of cash on hand.

Current Ratio. The current ratio is one of the most common measures of liquidity. It compares an entity's current assets (those assets that become cash or are used up within a year) to current liabilities (liabilities due within a year). This ratio measures an organization's ability to meet obligations as they become due. If the current ratio is too low, an organization may not be able to meet its obligations. If the ratio is very high, resources might be more productively employed in other ways.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Days of Cash on Hand. Days of cash on hand is another widely used liquidity ratio. It measures how long an organization could meet its daily expenses using just the resources on hand. It compares cash and near cash assets to daily operating expenses. Bad debt and depreciation are excluded from operating expenses because they do not require a cash outflow. Too low a ratio suggests that an agency couldn't meet its obligations if something happened that cut off future cash inflows. Too high a ratio suggests that cash could be better utilized to provide resources or services.

$$\text{Days of Cash on Hand} = \frac{\text{Cash + Marketable Securities}}{\text{(Operating Expenses-Bad Debt-Depreciation)/365}}$$

[48] Steven A. Finkler, *Financial Management for Public, Health, and Not-for-Profit Organizations* (Upper Saddle River, New Jersey: Prentice Hall, 2001).

Performance Indicators

While public service organizations do not provide services primarily to make a profit, organizations need to earn income to be financially healthy, to improve and expand services, and to meet future challenges. Financial resources are a means to an end. Without adequate financial resources, an organization generally can not achieve its mission. To measure financial performance, we examine two indicators, the change in unrestricted net assets and the operating margin.

Change in Unrestricted Net Assets. Not-for-profits and governmental organizations use the term net assets. Net assets, owners' equity, and fund balance consist of amounts that have been contributed to an organization and profits or surpluses that have been earned and retained over time. These terms represent the residual amount when liabilities are subtracted from assets. Net assets may be unrestricted, temporarily restricted, and permanently restricted. Increases in net assets are generally caused by revenues and decreases are generally caused by increasing expenses.

Operating Margin. Operating margin generally measures the percent of earnings (operating revenue less operating expenses) generated for each dollar of operating revenue received. For not-for-profit entities, this ratio compares the change in unrestricted net assets with total unrestricted revenues and other support. A positive percentage would indicate that the organization earned so many cents for every dollar of revenue. A negative ratio indicates an entity's operating expenses are greater than its operating revenues and the entity is consuming operating reserves.

$$\text{Operating Margin} = \frac{\text{Change in Unrestricted Net Assets}}{\text{Total Unrestricted Revenues and Other Support}}$$

For hospitals we calculated operating margin as operating income (operating revenue less operating expenses) divided by the total of unrestricted revenues and non-operating revenues.

$$\text{Operating Margin} = \frac{\text{Operating Income}}{\text{Total Unrestricted Revenues and non-operating revenues}}$$

Long-Term Stability Indicators

While liquidity ratios are used to assess an organization's ability to meet short-term obligations, debt to net assets assesses the long-term viability of an agency.

Debt to Net Assets and Fixed Asset Financing. The debt to net asset ratio measures the extent to which an organization supports its activities by using debt. The ratio calculates the amount of debt used to finance the acquisition of its assets. The ratio is calculated by dividing an agency's total debt by its net assets. Net assets are a measure of equity. Debt ratios can be calculated using a range of different definitions for debt. We use total liabilities. Debt allows agencies to undertake programs and enhance services that they otherwise could not do. Excessive debt levels risk the continued existence of an agency.

$$\text{Debt to Net Assets} = \frac{\text{Total Debt}}{\text{Total Net Assets}}$$

For hospitals we calculated the fixed asset financing ratio. This ratio is calculated by dividing long-term debt by net fixed assets.

$$\text{Fixed Asset Financing} = \frac{\text{Long-term Debt}}{\text{Net Fixed Assets}}$$

Some agencies have negative net assets. Net assets are negative when an agency's liabilities are greater than their total assets. We did not calculate the debt to net assets ratio when an agency's net assets were negative.

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