

Highlights

Why We Did This Audit

We did this audit because the aviation, sewer, and water enterprise funds need the ability to meet ongoing financial, service, and capital obligations. Analysis and interpretation of the enterprise funds' financial statements can help elected officials and management understand the statements and identify trends and existing or emerging issues.

Elected officials and city management can use analysis of the enterprise funds' financial condition as a tool in financial policy decisions, long-range financial planning, and budget development.

Background

The Comprehensive Annual Financial Report (CAFR) contains a wide range of financial information on the governmental and business-type activities of a government.

Our work focused on evaluating the financial condition of the city's aviation, sewer, and water funds. We used data from each fund's CAFR or financial statements and based our evaluation on a financial condition model developed by the University of North Carolina's School of Government.

In our analysis, we examined the flow of resources used during a fiscal year and the stock of resources available at the end of a fiscal year. From our analysis we determined whether each indicator is favorable, inconclusive, or unfavorable.

For more information, contact the City Auditor's Office at 816-513-3300 or auditor@kcmo.org.

To view the complete report, go to kcmo.gov/cityauditor and click on Search Audit Reports.

PERFORMANCE AUDIT

Enterprise Funds: Financial Condition Indicators

What We Found

The model we used defines financial condition as a local government's ability to meet its ongoing financial, service, and capital obligations based on the status of resource flow and stock as interpreted from annual financial statements.

The financial condition of the city's aviation fund is generally favorable. Half the ratios measuring the fund's ability to meet current obligations were favorable which along with the fund's investment reserves indicates the fund is able to meet current obligations. However, if additional debt is incurred, Aviation may need to improve margins to ensure the fund's ability to cover the additional obligations. The ratios looking at the aviation fund's stock of resources were favorable with the exception of the capital assets condition indicator, which was unfavorable.

The financial condition for the sewer and water funds is mostly favorable. The ratios of the funds' flow of resources to meet current obligations were favorable. The sewer and water funds' ratios of stock of resources or resources available to meet obligations over time were mostly favorable with a few inconclusive indicators.

Four indicators evaluate the flow or use of resources associated with a fund's ability to meet current obligations and another four indicators evaluate the stock or availability of resources associated with a fund's ability to meet future or long-term obligations. Our ratings of the financial indicators for each fund are listed in the table below.

Results for Financial Condition Evaluation Model Indicators

	Financial Indicator	Aviation Results	Sewer Results	Water Results
Flow of Resources	Total margin ratio	Favorable	Favorable	Favorable
	Percent change in net assets	Inconclusive	Favorable	Favorable
	Charge to expense ratio	Inconclusive	Favorable	Favorable
	Debt service ratio	Favorable	Favorable	Favorable
Stock of Resources	Quick ratio	Favorable	Favorable	Favorable
	Net assets ratio	Favorable	Inconclusive	Favorable
	Debt to assets ratio	Favorable	Inconclusive	Inconclusive
	Capital assets condition ratio	Unfavorable	Favorable	Favorable

While the Popular Annual Financial Report (PAFR) includes ratio and trend information evaluating the performance of governmental funds, it does not include information evaluating the financial condition of the enterprise funds. Including enterprise fund ratio and trend information in the PAFR would improve the city's ability to monitor the funds' financial condition and provide accessible information to the public about these funds.

What We Recommend

We recommended the director of finance include financial condition ratio analysis and trend data for the city's enterprise funds in the city's Popular Annual Financial Report.

Management agreed with the recommendation.