

Office of Internal Audit

Financial Analysis

October 2015

City Auditor

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Senior Auditor

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OFFICE OF INTERNAL AUDIT

Stan Sewell, City Auditor

October 30, 2015

To: Mayor Andy Berke
City Council Members

Subject: City of Chattanooga Financial Analysis

Dear Mayor Berke and City Council Members:

The Office of Internal Audit (OIA) has completed the attached financial analysis of the City of Chattanooga. This is our first review of financial indicators for the City. The analysis takes the financial statements and selected demographic information, as presented in the Comprehensive Annual Financial Report (CAFR) and converts them into useful and understandable measures of financial performance. The measurement system used is the 10-Point Test of Government Financial Health¹.

Our objective is to provide City leaders a method for monitoring financial condition. Managers can use the analysis to examine the City's financial condition, identify existing and emerging financial trends, and develop strategies for managing identified trends. The analysis should not be used as the only source of information to evaluate the financial condition of the City.

Most of the City's financial indicators are trending positively. Also, the analysis of financial indicators as of 2014 had numerous positive results when compared to the averages of its benchmark cities. Eight of the ten measurements compared favorably. However, the analysis also revealed unfavorable indicators for debt burden and capital asset condition. Left unchecked over time, the unfavorable indicators could limit the City's ability to provide services.

The issues discussed in this report are not the result of an audit performed in accordance with generally accepted government auditing standards. Had we performed such an audit, additional issues might have been reported. The purpose of this report is to provide information that may be useful to those charged with governance of the City of Chattanooga.

¹ "Governing – [Guide to Financial Literacy](#) – Volume 2 – Managing Your Jurisdiction's Financial Health", page 16, Copyright 2015.

Sincerely,

Stan Sewell, CPA, CGFM, CFE
City Auditor

Attachment

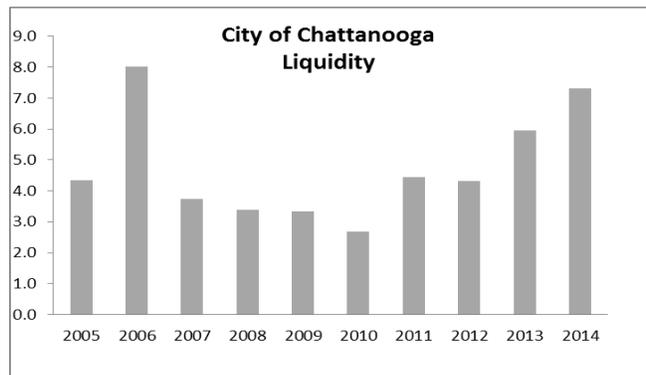
cc: Audit Committee Members
Travis McDonough, Chief of Staff
David Carmody, Acting Chief Operating Officer
Stacy Richardson, Senior Advisor to the Mayor
Daisy Madison, Chief Financial Officer

Financial Position Indicators:

+ Short-Run Financial Position – This ratio measures the City’s ability to handle unforeseen resource needs. A higher ratio suggests the City has larger reserves to deal with unexpected needs. In 2014, Chattanooga’s ratio was 26.95% (approximately 98 days) which compares to the average of its benchmark cities¹ of 14.73% (approximately 54 days).

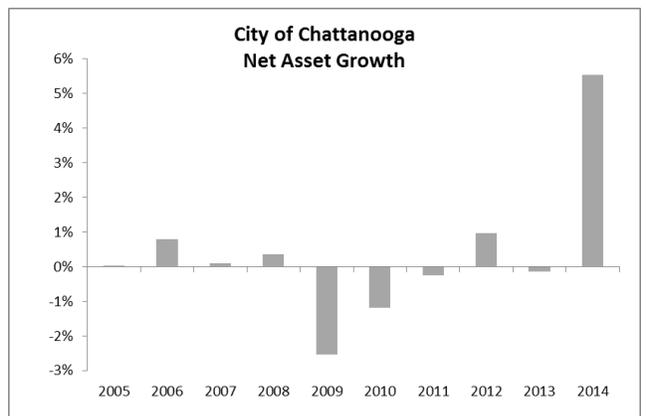


+ Liquidity – This ratio measures the City’s ability to meet its short-term obligations. A higher ratio suggests the City has a greater capacity for paying off short-term obligations. In 2014, Chattanooga’s ratio was 7.3 which compares to the average of its benchmark cities of 4.4.



Financial Performance Indicators:

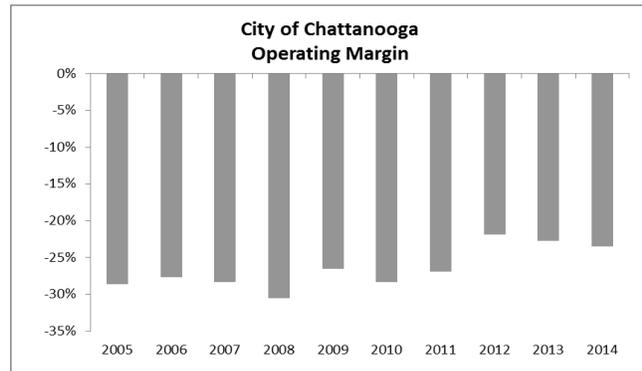
+ Net Asset Growth – This ratio measures the rate the City’s resources are growing. A higher ratio suggests the City’s annual costs are being adequately financed and the financial condition is improving. In 2014, Chattanooga’s ratio² was a 5.54% which compares to the average of its benchmark cities of 2.91%.



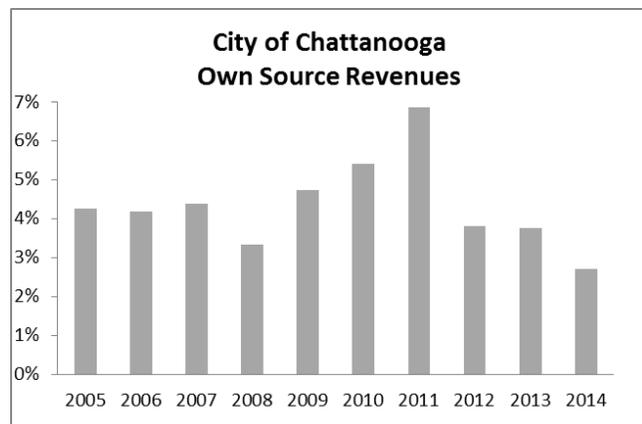
¹ Benchmark cities have comparable populations and geographic locations.

² During FY14 the City early implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions* resulting in a significant decrease to net position. For the purposes of this analysis, FY14 net position was compared to an adjusted (to GASB 68) FY13 net position amount. None of the benchmark cities early adopted Statement No. 68. All benchmark cities will adopt GASB Statement No. 68 for FY15.

+ Operating Margin – This ratio measures the City’s revenue sufficiency and the use of governmental revenue. A lower ratio suggests the City’s basic government services are more self-sufficient through charges, fees and grants. In 2014, Chattanooga’s ratio was negative 23.52% which compares to the average of its benchmark cities of negative 22.62%.

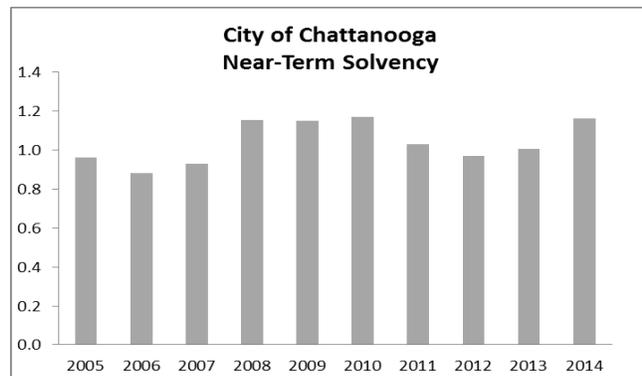


+ Own Source Revenues – This ratio measures the flexibility of the City’s revenues. A lower ratio suggests the City was not heavily reliant on intergovernmental aid. In 2014, Chattanooga’s ratio is 2.72% which compares to the average of its benchmark cities of 5.03%.



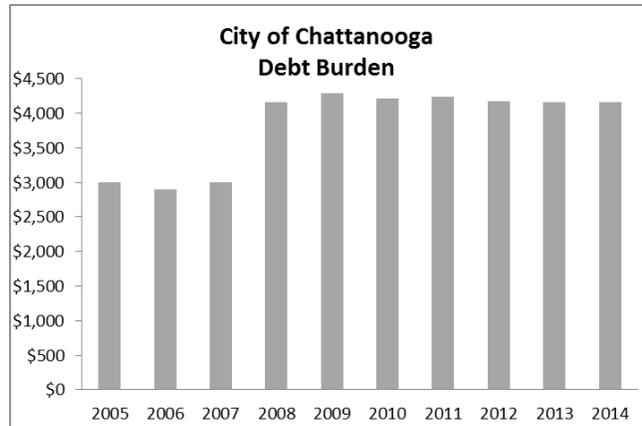
Budget Solvency Indicator:

+ Near-Term Solvency – This ratio measures the City’s ability to repay its outstanding obligations. A lower ratio suggests the City’s outstanding obligations can be more easily met with annual revenues. In 2014, Chattanooga’s ratio was 1.16 which compares to the average of its benchmark cities of 1.85.

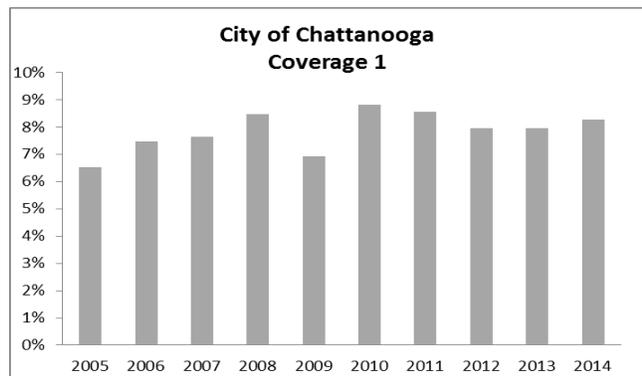


Long-Term Solvency Indicators:

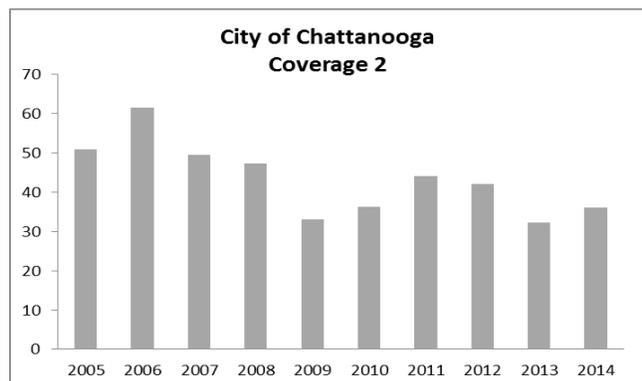
- Debt Burden – This ratio measures the level of debt on the City’s residents. A lower ratio suggests less burden on the City’s taxpayers and a greater capacity for additional borrowing. In 2014, Chattanooga’s ratio was \$4,165 which compares to the average of its benchmark cities of \$2,412.



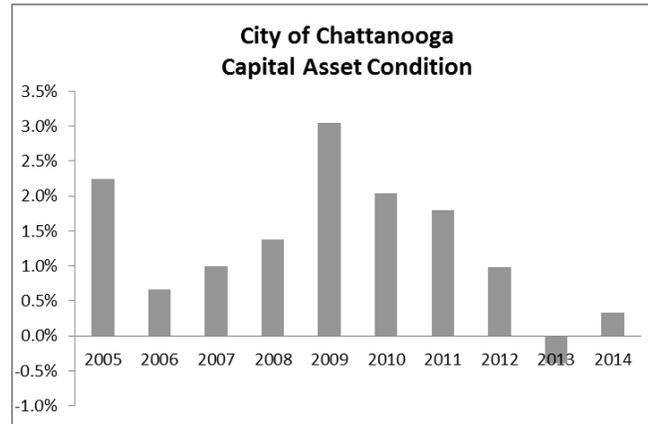
+ Coverage 1 – This ratio measures the City’s sufficiency of revenues for debt service. A lower ratio suggests the City general governmental long-term debt can more easily be repaid when it comes due. In 2014, Chattanooga’s ratio was 8.28% which compares to the average of its benchmark cities of 12.18%.



+ Coverage 2 – This ratio measures the City’s sufficiency of resources available to repay debt related to Proprietary Funds. A higher ratio suggests the City has greater resources available for repaying the debts from enterprise activities as they come due. In 2014, Chattanooga’s ratio was 36.12 which compares to the average of its benchmark cities of 10.85.



Capital Asset Condition – This ratio is a measure of whether the investment in new assets is keeping pace with the depreciation and disposal of assets. A higher ratio suggests the City is keeping pace, on average, with the aging of capital assets. In 2014, Chattanooga’s ratio was .33% which compares to the average of its benchmark cities of 2.82%.



City of Chattanooga Fraud, Waste, and Abuse Hotline

Internal Audit’s Fraud, Waste, and Abuse Hotline gives employees and citizens an avenue to report misconduct, waste or misuse of resources in any City facility or department.

Internal Audit contracts with a hotline vendor, The Network, to provide and maintain the reporting system. The third party system allows for anonymous reports. All reports are taken seriously and responded to in a timely manner. Reports to the hotline serve the public interest and assist the Office of Internal Audit in meeting high standards of public accountability.

To make a report, call 1-877-338-4452 or visit our website:
www.chattanooga.gov/internal-audit