

# Office of Internal Audit

## Financial Analysis

January 2019

**City Auditor**

Stan Sewell, CPA, CGFM, CFE

**Senior Auditor**

Richard Walls, CPA, CIA





# OFFICE OF INTERNAL AUDIT

## Stan Sewell, City Auditor

January 29, 2019

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 has completed the attached financial analysis of the City of Chattanooga. This is our fifth annual 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 Health<sup>1</sup>.

Our objective is to provide City leaders a method for monitoring financial condition. Those charged with governance 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 attached graphs show the City's trends which are important for financial analysis. Additionally, comparison to benchmark cities<sup>2</sup> provides context. The analysis should not be used as the only source of information to evaluate the financial condition of the City.

Seven of the ten financial indicators compared positively to last year (FYE 2017). The analysis of financial indicators as of, and for, the year ending June 30, 2018 continued to have positive results when compared to the averages of its benchmark cities. Eight of the ten measurements compared favorably. The analysis continued to reveal an unfavorable indicator for debt burden. Left unchecked over time, the unfavorable indicator could limit the City's ability to provide services.

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

<sup>2</sup> Benchmark cities: Augusta, Georgia; Columbus, Georgia; Huntsville, Alabama; Jackson, Mississippi; Knoxville, Tennessee; Little Rock, Arkansas; Newport News, Virginia; and Port St. Lucie, Florida.

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.

Sincerely,

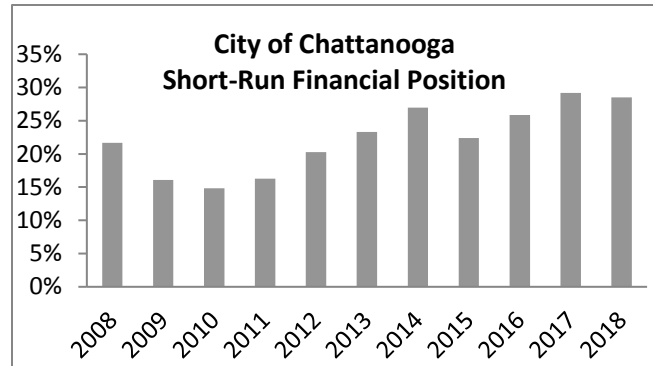
Stan Sewell, CPA, CGFM, CFE  
City Auditor

Attachment

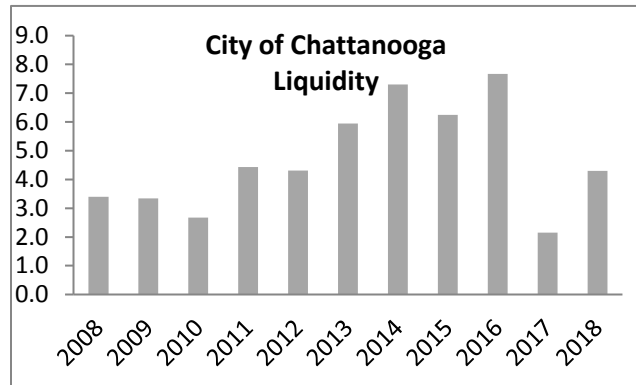
cc: Audit Committee Members  
Stacy Richardson, Chief of Staff  
Maura Sullivan, Chief Operating Officer  
Daisy Madison, Chief Financial Officer

### 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 2018, Chattanooga’s ratio was 28.52% which compares favorably to the average of its benchmark cities<sup>1</sup> of 16.10%. Compared to prior year: Negative.

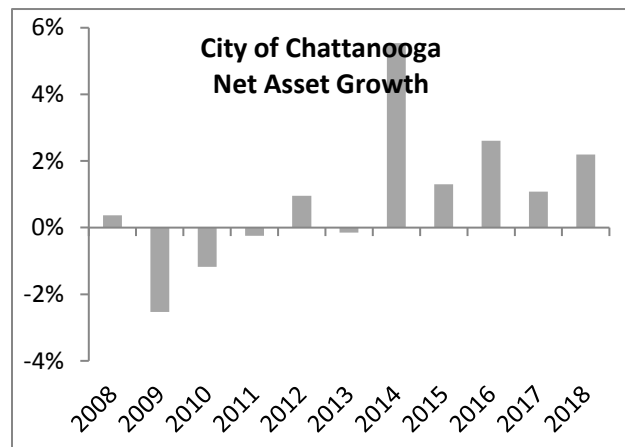


**+ Liquidity** – This ratio measures the City’s ability to meet its short-term obligations. A higher ratio suggests the City has a greater capacity for paying off short-term obligations. In 2018, Chattanooga’s ratio was 4.3 which compares favorably to the average of its benchmark cities of 3.2. Compared to prior year: Positive.



### 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 2018, Chattanooga’s ratio<sup>2</sup> was 2.20% which compares unfavorably to the average of its benchmark cities of 12.78%. Compared to prior year: Positive.

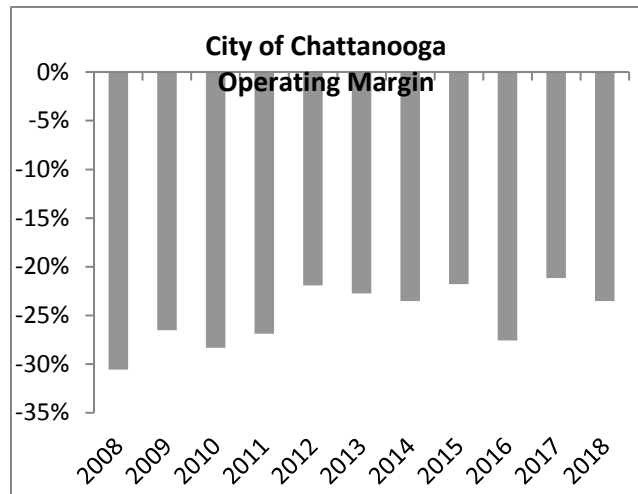


<sup>1</sup> Benchmark cities have comparable populations and geographic locations. The **+** and **-** symbols reflect the favorable or unfavorable comparison of the City’s ratio to the average of its benchmark cities ratio.

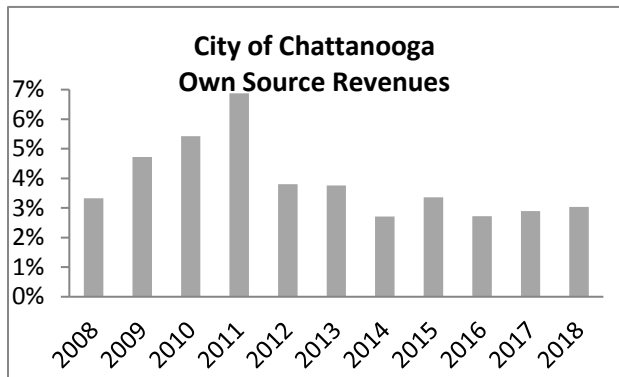
<sup>2</sup> For fiscal years beginning after June 15, 2017 municipalities were required to implement GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* resulting in a significant decrease to net position. The City of Chattanooga early adopted the GASB Statement. For purposes of this analysis, net position has been adjusted for comparability purposes.

**+** **Operating Margin** – This ratio<sup>3</sup> 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 2018, Chattanooga’s ratio was negative 23.52% which compares favorably to the average of its benchmark cities of negative 21.52%.

Compared to prior year: Positive.

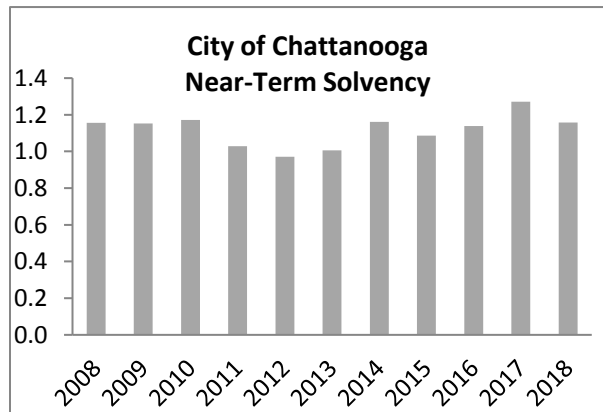


**+** **Own Source Revenues** – This ratio measures the flexibility of the City’s revenues. A lower ratio suggests the City was not heavily reliant on intergovernmental aid. In 2018, Chattanooga’s ratio is 3.03% which compares favorably to the average of its benchmark cities of 3.22%. Compared to prior year: Negative.



**Budget Solvency Indicator:**

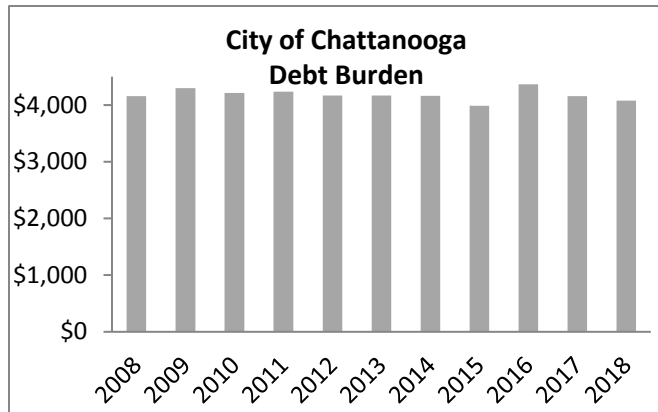
**+** **Near-Term Solvency** – This ratio measures the City’s ability to repay its outstanding obligations. A lower ratio suggests the City’s outstanding obligations can be more easily met with annual revenues. In 2018, Chattanooga’s ratio was 1.16 which compares favorably to the average of its benchmark cities of 1.99. Compared to prior year: Positive.



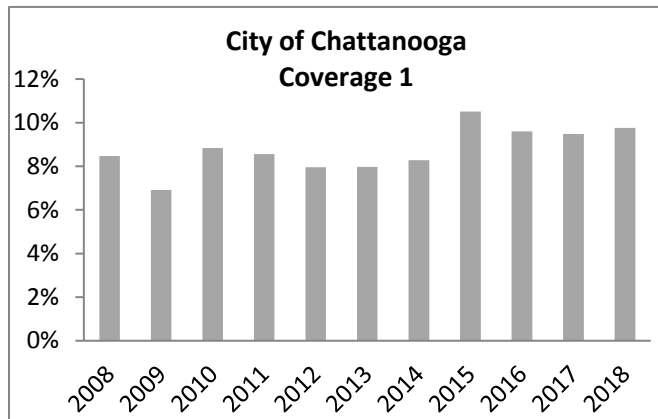
<sup>3</sup> The operating margin ratio is computed by dividing the revenue for governmental activities by the total governmental activities expenses. The result is then multiplied by negative 1. Consequently, a larger negative ratio is desirable.

**Long-Term Solvency Indicators:**

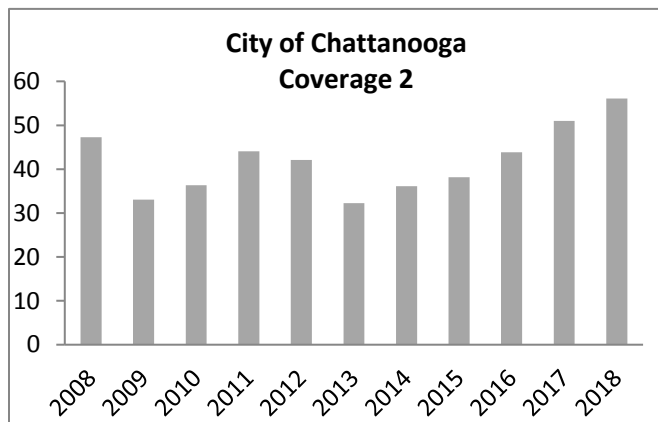
**➖ Debt Burden** – Debt per capita measures the level of debt on the City’s residents. A lower amount suggests less burden on the City’s taxpayers and a greater capacity for additional borrowing. In 2018, Chattanooga’s debt per capita was \$4,079 which compares unfavorably to the average of its benchmark cities of \$2,344. Compared to prior year: Positive.



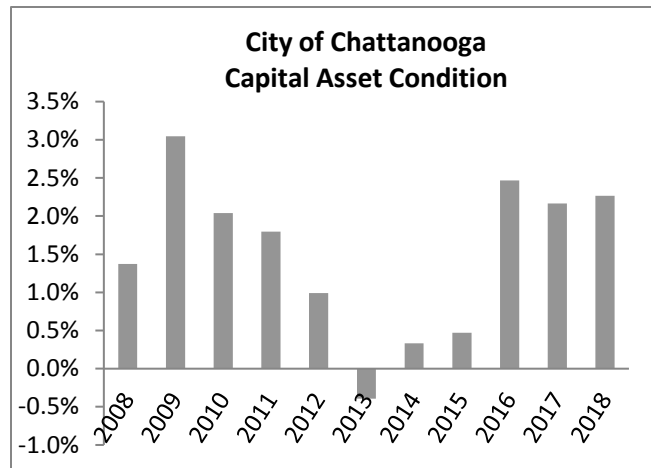
**➕ Coverage 1** – This ratio measures the City’s sufficiency of revenues for debt service. A lower ratio suggests the City general governmental long-term debt can more easily be repaid when it comes due. In 2018, Chattanooga’s ratio was 9.77% which compares favorably to the average of its benchmark cities of 9.78%. Compared to prior year: Negative.



**➕ 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 2018, Chattanooga’s ratio was 56.08 which compares favorably to the average of its benchmark cities of 14.16. Compared to prior year: Positive.



**+** **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 doing a good job with the aging of capital assets. In 2018, Chattanooga’s ratio was 2.27% which compares favorably to the average of its benchmark cities of 1.40%. Compared to prior year: Positive.



### 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](http://www.chattanooga.gov/internal-audit)