Performance Audit
Review of Audits of Outside Agencies

February 2009

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City Auditor's Office

City of Kansas City, Missouri

13-2008

February 25, 2009

Honorable Mayor and Members of the City Council:

In fiscal year 2008, 44 non-municipal agencies received over $180 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.

Two agencies did not submit their financial audits or internal control analysis for our review. Commercial auditors for 13 agencies had findings they were required to report. Auditors found significant deficiencies in the internal control structures for 12 agencies. For 6 of the 12, the significant deficiency was also a material weakness. Agencies' auditors also noted material noncompliance for three of the agencies.

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 analysis for 14 agencies that received $1 million of more in fiscal year 2008. We identified nine of these agencies with at least one weak financial indicator.

We appreciate the courtesy and cooperation extended to us during this project by the agencies, their accounting firms, and the city monitoring departments. The team for this project was Joyce Patton and Nancy Hunt.

Gary L. White
City Auditor

Review of Audits of Outside Agencies

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Introduction

Objectives

The purpose of this audit of outside agencies is to provide elected officials 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 the 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 provides assurance or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making, and contribute to public accountability.[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 2008 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, 2008 and February 19, 2009. Audit reports are based on the agency's fiscal year, which can vary from the city's fiscal year.

Audit methods included:

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[1] Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office, 2007), p. 17.

[2] Contracts with the manager of procurement services, construction contracts, consultant or engineering contracts, and contracts with governmental entities are excluded.

- Identifying outside agencies that received at least $100,000 from the city in fiscal year 2008.
- Summarizing the findings of the agencies' commercial auditors.
- Identifying agencies' planned corrective actions and monitoring department oversight activities.
- Calculating selected financial ratios for those agencies receiving $1 million or more from the city during fiscal year 2008.
- Calculating the percentage of agency revenue comprised of city funding during the past three years.

We conducted this performance audit in accordance with generally accepted government auditing standards with the exception of reporting the views of management concerning the audit because we do not make any recommendations. We do not believe the absence of a response affects the audit results.

Government auditing standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. 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 2008, the city provided 44 non-municipal agencies with over $180 million in funding. (See Exhibit 1.) The funding represents about 20 percent of the city's general municipal program expenditures during that year.

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 percent to 75 percent of agency revenues. City funding comprised less than 10 percent of agency funding for 15 agencies, but more than one-half of agency funding for 5 agencies. (See Exhibit 1.) Diverse funding sources can make agencies less dependent on city support.

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

Agency	City Funding and Pass-Through Payments 2006	2007	2008	Percentage City Support to Total Revenue 3-Year Avg.
American Jazz Museum, Inc.	$ 624,000	$ 624,000	$ 625,000	26%
Black Economic Union of Greater Kansas City	202,847	179,024	186,382	16%[3]
Blue Hills Community Services Corporation	53,667	129,757	351,801	14%
Bridging the Gap, Inc.	478,000	411,200	438,726	33%
Cabot Westside Health Center	536,014	491,163	414,670	17%
Children's Mercy Hospital	1,411,697	1,400,000	1,100,000	.2%
Community Assistance Council, Inc.	234,030	239,253	241,987	46%
Community LINC	165,638	131,183	101,278	12%
Convention and Visitors Bureau of Greater Kansas City	5,843,757	7,440,860	7,490,991	74%
De LaSalle Education Center	0	0	200,000	4%[4]
Downtown Kansas City Community Improvement District	0	169,354	215,000	10%[5]
Economic Development Corporation of Kansas City, Mo.	1,046,215	1,216,300	1,145,000	28%
Family Conservancy, Inc.	281,573	124,227	121,348	2%
Friends of the Zoo, Inc., of Kansas City, Missouri	4,000,000	3,243,632	3,425,000	25%
Full Employment Council	0	34,367	115,278	0.5%[5]
Good Samaritan Project, Inc.	514,592	542,834	568,707	42%
Greater Kansas City Housing Information Center	160,940	219,049	255,230	60%
Guadalupe Centers, Inc.	450,431	368,506	373,623	9%
Harvesters – The Community Food Network	0	771,849	481,413	9%[5]
Homeless Services Coalition of Greater Kansas City	63,754	76,978	105,375	75%[4]
Hope House, Inc.[6]	120,460	130,309	125,462	4%

[3] Percentage calculated over two years because most recent financial audit not yet submitted.
[4] Percentage calculated over one year.
[5] Percentage calculated over two years.
[6] Hope House, Inc.'s audit for the year ending September 30, 2007 was included in our 2008 report.

Agency	City Funding and Pass-Through Payments			Percentage City Support to Total Revenue
	2006	2007	2008	3-Year Avg.
Kansas City Area Transportation Authority	47,995,232	46,801,115	47,525,999	54%
Kansas City Free Health Clinic	1,704,287	1,770,489	2,280,418	23%
Land Clearance for Redevelopment Authority	2,760	130,908	590,493	3%
Legal Aid of Western Missouri	774,990	782,594	517,599	10%
Liberty Memorial Association	588,000	796,677	1,478,000	25%
Metropolitan Ambulance Services Trust	12,300,000	13,500,000	12,375,000	41%
Neighborhood Housing Services of Kansas City, Mo.	58,424	72,782	269,067	28%[7]
Newhouse	155,646	182,349	147,122	12%
Northland Health Care Access	136,773	416,002	305,830	39%
Northland Neighborhoods, Inc.	332,207	320,589	366,439	31%
Operation Breakthrough, Inc.	210,041	939,642	429,599	7%
reStart, Inc.	287,454	645,177	385,189	21%
Rose Brooks Center, Inc.	182,211	155,419	286,901	4%
Samuel U. Rodgers Health Center, Inc.	1,810,185	1,712,372	1,210,446	11%
SAVE, Inc.	720,014	993,487	1,054,239	23%
Swope Community Builders	431,122	710,203	829,157	7%
Swope Health Services	1,313,983	1,601,209	1,267,681	3%
Tax Increment Financing Commission of Kansas City, Mo.	38,388,136	40,871,652	64,104,175	56%
Truman Medical Center, Inc.	25,827,151	25,141,817	25,332,574	7%
Twelfth Street Heritage Development Corporation	159,567	467,198	140,592	49%[8]
Union Station Kansas City, Inc.	1,186,857	1,384,857	1,383,542	5%
United Services Community Action Agency	111,172	128,270	105,108	2%
Westside Housing Organization, Inc.	139,573	114,271	216,000	11%
Total	$151,003,400	$157,582,924	$180,683,441	

Source: City's financial management system (PeopleSoft), agency financial audits, and City Auditor's Office calculations.

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[7] Percentage calculated over one year.
[8] Percentages calculated over two years because most recent financial audit not yet submitted.

Analysis

Summary

Two of the 44 agencies that received $100,000 or more in city or pass through funding in fiscal year 2008 have not provided their financial reports and internal control analysis for our review.

Commercial auditors for 13 non-municipal agencies receiving $100,000 or more in fiscal year 2008 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 planned activities.

The financial condition of 9 of the 14 agencies that received $1 million or more in funding in 2008 is of concern. We compiled financial indicators to evaluate an agency's liquidity, financial performance, and long term stability.

Not All Agencies Submitted Financial and Internal Control Analyses

Two of the 44 agencies that received $100,000 or more in outside agency funding in fiscal year 2008 did not submit their financial audit and internal control analysis by February 19, 2009. (See Exhibit 2.)

Exhibit 2. Noncompliance with Financial and Internal Control Reporting Requirements by Year[9]

	Number of Agencies				
	2005	2006	2007	2008	2009
Not Submitting Financial Audit	7	5	1	0	2
Not Submitting Internal Control Analysis	8	10	10	4	2

Sources: City Auditor's Office records.

Both of the non-reporting agencies received more the $140,000 in city funding during fiscal year 2008. (See Exhibit 3.) When agencies do not report, recent information on their financial condition and accounting and internal control structures is not available to elected officials, the city manager, or monitoring departments.

[9] The years within the exhibit indicate the year in which an agency's audit and internal control analysis should have been included in this annual report. In some instances the agencies provided reports that were included in subsequent years.

Exhibit 3. Agencies Not Submitting Financial Audits and Internal Control Reports

Agency	Audit Year Ending	Funding
Black Economic Union of Greater Kansas City	12/31/2007	$186,382
Twelfth Street Heritage Development Corporation	5/31/2008	140,592
Total		$326,974

Source: City's Financial Management System (PeopleSoft).

Staff from City Development told us Black Economic Union of Greater Kansas City expected to have its audit completed in mid-March and Twelfth Street Heritage Development Corporation is seeking funding to pay for the audit.

Agencies with Reported Problems

Commercial auditors for 13 of the agencies submitting internal control reports had findings they were required to report. Commercial auditors identified material weaknesses for 6 agencies, significant deficiencies for 12 agencies, and noncompliance issues for 3 agencies. (See Exhibits 4 and 5.) (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 4 and 5.)

Exhibit 4. Type of Finding by Year[10]

	Number of Agencies				
Finding	2005	2006	2007	2008	2009
Agencies with Qualified Opinions	2	3	1	0	0
Agencies with Material Weaknesses	4	4	1	5	6
Agencies with Significant Deficiencies	12	12	8	17	12
Agencies Having Noncompliance	6	8	3	5	3
Agencies Reviewed	41	45	42	46	42
Agencies with Findings	12	13	9	18	13
Percent of Agencies with Findings	29%	29%	21%	39%	31%

Sources: Annual agency commercial audits.

[10] 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.

Exhibit 5. Agencies with Findings

Agency	Audit Year Ending	Material Weakness	Significant Deficiency	Non-Compliance
Children's Mercy Hospital	6/30/07	Yes	Yes	Yes
Children's Mercy Hospital	6/30/08		Yes	Yes
Good Samaritan Project, Inc.	12/31/07		Yes	
Guadalupe Centers, Inc.	12/31/07	Yes	Yes	
Harvesters – The Community Food Network	6/30/08		Yes	
Homeless Services Coalition of Greater Kansas City	6/30/08	Yes	Yes	
Kansas City Area Transportation Authority	12/31/07			Yes
Land Clearance for Redevelopment Authority	4/30/08		Yes	
Metropolitan Ambulance Services Trust	4/30/08	Yes	Yes	
reStart, Inc.	12/31/07		Yes	
Samuel U. Rodgers Health Center, Inc.	9/30/07	Yes	Yes	Yes
Tax Increment Financing Commission of Kansas City, Missouri	4/30/2008		Yes	
Union Station Kansas City, Inc.	12/31/07	Yes	Yes	
Westside Housing Organization, Inc. and Subsidiaries	5/31/08		Yes	

Sources: Annual agency commercial audits.

Children’s Mercy Hospital (June 30, 2007)

	2006	2007	2008
Funding	$1,411,697	$1,400,000	$1,100,000
Material Weakness		Yes	
Significant Deficiency		Yes	Yes
Noncompliance		Yes	Yes

Material weakness and significant deficiency:
Children's Mercy Hospital's financial statements contained several errors requiring them to be restated.[11]

Management’s response:
The hospital is establishing stronger internal controls around the financial reporting process by reviewing financial statements and performing analytical procedures on relevant financial data on a monthly basis.

Noncompliance:
Children's Mercy Hospital employees involved with federal grants did not track their time allocation by the federally mandated functional categories.[12]

Management’s response:
The hospital is implementing a policy requiring individuals involved in federal grants to account for 100 percent of their time.

Health Department’s response:
The Health Department requested the hospital provide the department a description of their corrective actions.

[11] Children’s Mercy Hospital, Independent Auditors’ 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*, Schedule of Findings and Questioned Costs, KPMG LLP, for the year ending June 30, 2007.
[12] 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, 2007.

Children’s Mercy Hospital (June 30, 2008)

	2006	2007	2008
Funding	$1,411,697	$1,400,000	$1,100,000
Material Weakness		Yes	
Significant Deficiency		Yes	Yes
Noncompliance		Yes	Yes

Significant deficiency:
Children's Mercy Hospital's operating room inventory balance was not properly stated as of June 30, 2008 as sample inventory counts and room inventory items were not accurate and items on consignment were included in the final inventory value.[13]

Management’s response:
The hospital hired an outside party to conduct an inventory count in December 2008 and placed "Do Not Count" tags on consignment items.

Noncompliance:
Children's Mercy Hospital did not provide sufficient documentation to support the employee's level of effort while working on a federal grant.[14]

Children's Mercy Hospital employees involved with federal grants did not track their time allocation by the federally mandated functional categories.[14]

Management’s response:
The hospital implemented procedures ensuring that time is tracked by functional category.

Health Department’s response:
The Health Department requested the hospital provide the department a description of its corrective actions by mid-February 2009.

[13] Children’s Mercy Hospital, Independent Auditors’ 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*, Schedule of Findings and Questioned Costs, KPMG LLP, for the year ending June 30, 2008.
[14] 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, 2008.

Good Samaritan Project, Inc. (December 31, 2007)

	2006	2007	2008
Funding	$514,592	$542,834	$568,707
Reportable Condition	Yes		
Significant Deficiency		Yes	Yes

Significant deficiency:
Due to the size of the accounting department, there is little segregation of accounting functions. However, additional costs may outweigh the benefits received.[15]

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 treasurer closely monitor the financial management of the agency.

Health Department's response:
Health conducted a site monitoring visit in February 2008 during which they recommended Good Samaritan Project, Inc. create a database to enter check information upon receipt and compare the information to the bank deposit slip. The department followed up with a second site monitoring visit in September 2008 where they confirmed the agency had created a database and was matching the database information with the deposit slip. During the visit Health also noted the agency began using a check scanning system for deposits and the treasurer verified payment vouchers against invoices which he/she initialed before a check was issued.

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[15] Good Samaritan Project, Inc., Independent Auditors Report on Internal Control over Financial Reporting and on Compliance on Other Matters 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, 2007.

Guadalupe Centers, Inc. (December 31, 2007)

	2006	2007	2008
Funding	$450,431	$368,506	$373,623
Material Weakness			Yes
Significant Deficiency			Yes

Material weakness and significant deficiency:
Guadalupe Centers, Inc.'s Chief Financial Officer reconciles the cash accounts, has the ability to make disbursements, maintains the general ledger, and performs the reporting function. Also, there are not effective compensating controls performed by other employees to prevent or detect a material misstatement.[16]

Management's response:
Guadalupe Centers, Inc. will consider possible changes to its control system to attain proper segregation of duties including contracting with a third party to perform monthly bank reconciliations and review financial information, possible staff sharing with another local not-for-profit with similar control issues, and/or realignment of current personnel issues.

Neighborhood and Community Services Department's response:
Neighborhood and Community Services asked Guadalupe Centers, Inc. to provide the department a corrective action plan. The department plans to follow up with the agency during their annual monitoring review which is to take place before mid-April 2009.

[16] Guadalupe Centers, 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*, Schedule of Findings and Questioned Costs, Westbrook & Co., P.C., for the year ending December 31, 2007.

Harvesters – The Community Food Network (June 30, 2008)

	2006	2007	2008
Funding	$0	$771,849	$481,413
Material Weakness		Yes	
Significant Deficiency		Yes	Yes

Significant deficiency:
Harvesters did not have proper segregation of accounting duties.[17]

Management's response:
Harvesters has implemented certain mitigating controls to reduce the risk associated with the lack of segregation of duties.

City Development Department's response:
City Development is planning to conduct a site monitoring visit of Harvesters in February 2009 at which time they will review the agency's policies and procedures that address the internal control finding.

[17] Harvesters – The Community Food Network, Independent Auditors' 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 Auditors' 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, Mayer Hoffman McCann P.C., for the year ending June 30, 2008.

Homeless Services Coalition of Greater Kansas City (June 30, 2008)

	2006	2007	2008
Funding	$63,754	$76,978	$105,375
Material Weakness			Yes
Significant Deficiency			Yes

Material weakness and significant deficiency:
Homeless Services Coalition is not capable of preparing the financial statements including the required notes to those statements and lacks the skills and competence to prevent, detect, and correct a misstatement.[18]

Significant deficiencies:
Homeless Services Coalition does not have sufficient mitigating controls to offset inadequate segregation of duties due to a lack of personnel within the organization.[18]

Homeless Services Coalition does not sufficiently document the Board of Directors overseeing the activities of the organization.[18]

Management's response:
Homeless Services Coalition plans to have their CPA review a draft internal control policy and then have its Board of Directors vote on this policy.

Neighborhood and Community Services Department's response:
Neighborhood and Community Services plans to follow up on the Coalition's progress before the end of the fiscal year.

[18] Homeless Services Coalition of Greater Kansas City, Management Letter Comments, Schmidt, Cornish & Smith, CPA's, for the year ending June 30, 2008.

Kansas City Area Transportation Authority (December 31, 2007)

	2006	2007	2008
Funding	$47,995,232	$46,801,115	$47,525,999
Significant Deficiency		Yes	
Noncompliance		Yes	Yes

Noncompliance:
Kansas City Area Transportation Authority (KCATA) did not ensure the timely filing of the National Transit Database (NTD) report.[19]

Management's response:
KCATA is currently developing reports which will provide the required NTD information in a timely manner.

Public Works Department's response:
Public Works meets with KCATA on a monthly basis to address issues. The KCATA filed the most recent NTD report prior to the deadline.

[19] Kansas City Area Transportation Authority, 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, Schedule of Findings and Questioned Costs, McGladrey & Pullen, LLP, for the year ending December 31, 2007.

Land Clearance for Redevelopment Authority (April 30, 2008)

	2006	2007	2008
Funding	$2,760	$130,908	$590,493
Significant Deficiency			Yes

Significant deficiency:
Land Clearance for Redevelopment Authority (LCRA) management did not notify the accounting department nor give them documentation supporting certain transactions. Management noted during its review of the financial statements that a liability and its corresponding asset no longer existed.[20]

Management's response:
LCRA management reports they have established an improved communication process with the accounting department on new projects and committed to thoroughly reviewing the statements each month for comprehension and for items requiring clarification. Management is also developing supporting documentation guidelines for inclusion in a comprehensive policies and procedures manual.

City Development Department's response:
City Development is planning to assure that LCRA management and LCRA accounting meet monthly to review past financial transactions and address expected future transactions.

[20] Land Clearance for Redevelopment Authority, 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*, Required Communications and Management Letter, Cochran Head Vick & Co., P.C., for the year ending April 30, 2008.

Metropolitan Ambulance Services Trust (April 30, 2008)

	2006	2007	2008
Funding	$12,300,000	$13,500,000	$12,375,000
Material Weakness			Yes
Significant Deficiency		Yes	Yes

Material weakness and significant deficiency:
Metropolitan Ambulance Services Trust (MAST) did not properly record year-end federal funding expenditures relating to construction in progress.[21]

Management's response:
MAST management reported they would record the related income and assets as future funds are made available for completion of the project in July 2008.

City Manager Office's response:
The city manager directed the city's internal auditor to meet with MAST to verify that the finding is addressed, be available to assist MAST in the future, and identify areas of concern.

[21] Metropolitan Ambulance Services Trust, 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 April 30, 2008.

reStart, Inc. (December 31, 2007)

	2006	2007	2008
Funding	$287,454	$645,177	$385,189
Significant deficiency			Yes

Significant deficiency:
reStart, Inc.'s auditor initiated one significant audit adjustment to accrue interest expense on a note payable, increasing interest expense by $88,581.[22]

Management's response:
In a letter to their board of directors, reStart, Inc. stated they will obtain updated accrued interest on all outstanding debt and record the proper value of accrued interest monthly. Also, the Executive Director and Board of Directors Treasurer will verify all material transactions have been recorded in the monthly general ledger.

Neighborhood and Community Services Department's response:
Neighborhood and Community Services asked reStart, Inc. to provide the department with a written explanation of the measures the agency is implementing to address the finding. The department plans to follow up with the agency during their annual monitoring review meeting to take place before the end of March 2009.

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[22] reStart, 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*, Schedule of Findings and Questioned Costs, Dana F. Cole & Company, LLP, for the year ending December 31, 2007.

Samuel U. Rodgers Health Center, Inc. (September 30, 2007)

	2006	2007	2008
Funding	$1,810,185	$1,712,372	$1,210,446
Material Weakness			Yes
Significant Deficiency	Yes	Yes	Yes
Noncompliance	Yes	Yes	Yes

Material weakness, significant deficiency, and noncompliance:
Health Center staff did not follow the center's sliding scale fee policy. A review of 30 sliding fee adjustment patient files revealed that 16 patients were billed an inappropriate amount and/or their files did not contain documentation supporting eligibility for the adjustment.[23]

Management's response:
Health Center management agreed with the auditor's recommendations to implement procedures that the center's sliding scale policy is followed.

Significant deficiency:
The Health Center's controls over patient receivables and revenue do not allow the Health Center to initiate, authorize, record, process, or report patient revenues and accounts receivable data reliably.[24]

Management's response:
Health Center management agreed with the auditor's recommendations to implement controls they deem effective in preventing material misstatement due to error or fraud.

Health Department's response:
The Health Department requested the Health Center provide the department a detailed corrective action plan and the department is planning to meet with the agency to verify the agency's actions.

[23] Samuel U. Rodgers Health Center, Inc., 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,* Independent Accountants' Report on Compliance and Internal Control Over Compliance with Requirements Applicable to Major Federal Awards Programs, Schedule of Findings and Questioned Costs, BKD LLP, for the year ending September 30, 2007.
[24] Samuel U. Rodgers Health Center, Inc., 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 September 30, 2007.

Tax Increment Financing Commission of Kansas City, Missouri (April 30, 2008)

	2006	2007	2008
Funding	$38,388,136	$40,871,652	$64,104,175
Significant Deficiency		Yes	Yes
Reportable Condition	Yes		

Significant deficiency:
Because the Tax Increment Financing Commission does not have the TIF revenue information currently provided to the City of Kansas City, Missouri, and other taxing jurisdictions, the Commission has a difficult time in determining the amount of TIF financing revenues and receivables from the various taxing authorities.[25]

Management's response:
The Commission maintains the finding cannot be resolved because the information is received and retained by the Finance Department and cannot be released to the Commission because of confidentiality concerns. To resolve this finding the Commission believes it is necessary to transfer the TIF accounting function from Finance to the Economic Development Corporation of Kansas City, Missouri (EDC) and have all TIF revenues submitted directly to the EDC and the TIF Commission.

City Development Department's response:
City Development says they cannot take action on this finding until the city provides the Commission with TIF revenue information or the method of accounting for TIF revenue is changed.

[25] Tax Increment Financing Commission of Kansas City, Missouri, Required Communications and Management Letter, Cochran Head Vick & Co, P.C., for the year ending April 30, 2008.

Union Station Kansas City, Inc. (December 31, 2007)

	2006	2007	2008
Funding	$1,186,857	$1,384,857	$1,383,542
Material Weakness		Yes	Yes
Significant Deficiency		Yes	Yes

Material weaknesses and significant deficiencies:
Union Station Kansas City, Inc.'s auditors noted numerous instances of balance sheet accounts not being reconciled timely or reconciliations containing errors, most of which required audit adjustments.[26]

Union Station does not have a procedure for reconciling detailed fixed asset records to the general ledger on a regular basis, leading to inaccurate reporting of fixed asset cost and depreciation expense in the monthly financial statements. A material audit adjustment was recorded to expense items not meeting the capitalization requirements and to move construction in progress to the appropriate fixed asset categories.[26]

Significant deficiency:
Union Station does not review nonstandard journal entries.[26]

Union Station's auditors noted incompatible duties within the cash disbursements, cash receipts, contributions, and payroll cycles where often the same employee had the ability to authorize, execute, and record transactions.[26]

Management's response:
Union Station plans to hire a second accountant, implement a new accounting system, and review journal entries and reconciliations on a regular basis.

General Services Department's response:
General Services plans to review the Union Station fiscal activities that need monitoring and annually consider additional audit procedures.

[26] Union Station Kansas City, Inc., Management Letter Comments, BKD, LLP, for the year ending December 31, 2007.

Westside Housing Organization, Inc. and Subsidiaries (May 31, 2008)

	2006	2007	2008
Funding	$139,573	$114,271	$216,000
Reportable Condition		Yes	
Significant Deficiency			Yes

Significant deficiency:
Due to staff turnover, Westside Housing Organization, Inc.'s auditors noted the agency did not update several general ledger accounts in a timely manner, such as notes receivable accounts for loans made to individuals.[27]

Management's response:
Westside Housing Organization properly reconciled all of its balance sheet accounts before audit fieldwork was completed.

City Development's and Neighborhood and Community Services' response:
Neighborhood and Community Services discussed the finding with the agency during the department's November 2008 monitoring review and is following up with the agency. Additionally, the department obtained confirmation from City Development they would assess the finding during their monitoring visit in March 2009.

[27] Westside Housing Organization, Inc. and Subsidiaries, Management Letter Comments, Miller, Haviland, Ketter, P.C., P.A., for the year ending May 31, 2008.

Financial Analysis for Liquidity, Performance, and Long Term Stability

The financial condition of 9 of the 14 agencies that received $1 million or more of funding in 2008 is of concern. Four of these agencies should be watched as ratios for two of three financial indicators were not met. Results for five 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 City Council informed of the financial condition of these agencies, we calculated several financial ratios or measures for the agencies receiving $1 million or more from the city during fiscal year 2008.

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 (change in unrestricted net assets and operating margin), 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 Condition

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 6.)

Exhibit 6. 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 Assets Ratio or Fixed Asset Financing Ratio[28]	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

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

not provide their financial report for inclusion in our analysis, we believe the agency should be watched. Four of the agencies receiving $1 million or more from the city in 2008 should be watched, based on our analysis. (See Exhibit 7.)

Exhibit 7. Financial Condition of Agencies Receiving $1 Million or More in 2008

Agency	Financial Condition
Children's Mercy Hospital	Positive
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	Mixed
Kansas City Area Transportation Authority	Positive
Kansas City Free Health Clinic	Mixed
Liberty Memorial Association	Mixed
Metropolitan Ambulance Services Trust	Positive
Samuel U. Rodgers Health Center, Inc.	Positive
Save, Inc. and Affiliates	Mixed
Swope Health Services	Positive
Tax Increment Financing Commission of Kansas City, Mo.	Mixed
Truman Medical Center, Inc.	Watch
Union Station Kansas City, Inc. and Subsidiary	Watch

Source: City Auditor's Office.

Children's Mercy Hospital's financial condition is positive. The agency's liquidity, long-term stability, and performance indicators all met our criteria. (See Exhibit 8.)

Exhibit 8. Children's Mercy Hospital Financial Ratios

	Audit Year Ending				
Measure	6/30/04	6/30/05	6/30/06[29]	6/30/07[29]	6/30/08[29]
Current Ratio	2.27	2.18	2.64	2.48	1.47
Days of Cash on Hand	36	19	34	79	87
Change in Unrestricted Net Assets	($103,739,358)	$4,825,014	$13,164,000	$48,626,000	$113,795,000
Operating Margin[30]	(1%)	(1%)	(1%)	5%	11%
Fixed Asset Financing[30]	38%	37%	37%	61%	23%

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

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

[29] Children's Mercy Hospital's external auditor rounded numbers to the nearest thousands (000s) for 2006, 2007, and 2008.
[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 long-term stability indicator. Also, we calculated operating margin by dividing operating income by the sum of unrestricted revenues and non-operating income.

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

Measure	Audit Year Ending				
	12/31/03[31]	12/31/04	12/31/05	12/31/06	12/31/07
Current Ratio	0.98	0.85	1.21	1.14	1.33
Days of Cash on Hand	36	18	20	9	4
Change in Net Assets	($609,340)	($80,846)	$467,190	$164,837	$158,461
Operating Margin	(13%)	(1%)	5%	2%	2%
Debt to Net Assets	Negative[32]	Negative[32]	1,739%	625%	361%

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. While the performance indicators are positive, the agency's liquidity (current ratio and days of cash on hand) and long-term stability (debt to net assets) indicators did not meet our criteria. (See Exhibit 10.)

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

Measure	Audit Year Ending				
	4/30/04	4/30/05	4/30/06	4/30/07	4/30/08
Current Ratio	1.08	0.73	0.20	0.36	0.46
Days of Cash on Hand	6	8	5	22	18
Change in Net Assets	($182,845)	$249,040	($447,147)	$133,511	$137,913
Operating Margin	(5%)	5%	(12%)	3%	3%
Debt to Net Assets	Negative[33]	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 mixed. While the agency's liquidity and performance indicators are positive, the long-term stability indicator (debt to net assets) did not meet our criteria. (See Exhibit 11.)

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

Measure	Audit Year Ending				
	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07
Current Ratio	5.01	5.87	8.43	10.98	3.14
Days of Cash on Hand	115	135	146	197	148
Change in Unrestricted Net Assets	($1,866,533)	$67,895	$95,890	$721,763	$362,156
Operating Margin	(16%)	1%	1%	5%	3%
Debt to Net Assets	74%	50%	31%	13%	60%

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

[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.
[33] The Economic Development Corporation of Kansas City, Missouri reported negative net assets of $262,425 as of April 30, 2004; negative net assets of $13,385 as of April 30, 2005; negative net assets of $460,532 as of April 30, 2006; negative net assets of $327,021 as of April 30, 2007; and negative net assets of $189,108 as of April 30, 2008.

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				
	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07
Current Ratio	1.51	1.93	1.22	1.30	1.29
Days of Cash on Hand	253	286	345	349	370
Change in Net Assets	$3,861,489	$10,864,745	$14,280,908	$8,798,582	$9,718,087
Operating Margin	6%	14%	17%	10%	11%
Debt to Net Assets	17%	13%	14%	13%	12%

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

Kansas City Free Health Clinic's financial condition is mixed. While the agency's liquidity and long-term stability indicators were positive, the performance indicators (change in unrestricted net assets and operating margin) did not meet our criteria. (See Exhibit 13.)

Exhibit 13. Kansas City Free Health Clinic Financial Ratios

Measure	Audit Year Ending				
	3/31/04	3/31/05	3/31/06	3/31/07	3/31/08
Current Ratio	6.34	5.37	4.22	3.86	3.57
Days of Cash on Hand	42	36	27	40	55
Change in Unrestricted Net Assets	$14,790	$30,314	$44,832	($45,200)	($17,200)
Operating Margin	0.24%	0.46%	1%	(1%)	(0.2%)
Debt to Net Assets	15%	14%	9%	11%	11%

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

Liberty Memorial Association's financial condition is mixed. While the agency's liquidity and performance indicators are positive, the agency long-term stability indicator (debt to net assets) did not meet our criteria. (See Exhibit 14.)

Exhibit 14. Liberty Memorial Association Financial Ratios

Measure	Audit Year Ending			
	12/31/04	12/31/05	12/31/06	12/31/07
Current Ratio	N/A[34]	N/A[34]	15.29	5.94
Days of Cash on Hand	364	311	171	280
Change in Unrestricted Net Assets	$1,149,859	$481,403	($787,180)	$917,442
Operating Margin	38%	15%	(27%)	20%
Debt to Net Assets	N/A[34]	N/A[34]	7%	60%

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

[34] Liberty Memorial Association did not report liabilities for the years ending December 31, 2004 and December 31, 2005.

Metropolitan Ambulance Services Trust's financial condition is positive. The agency's liquidity, performance, and long-term stability indicators are all positive. (See Exhibit 15.)

Exhibit 15. Metropolitan Ambulance Services Trust Financial Ratios

Measure	Audit Year Ending				
	4/30/04	4/30/05	4/30/06	4/30/07	4/30/08
Current Ratio	1.67	2.07	2.69	4.35	4.10
Days of Cash on Hand	0.19	6	69	111	105
Change in Net Assets	$2,370,676	$20,601	$512,700	$4,139,564	$5,294,443
Operating Margin	7%	0.1%	2%	13%	16%
Debt to Net Assets	125%	108%	116%	59%	37%

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

The financial condition for Samuel U. Rodgers Health Center, Inc. is positive. The agency's liquidity, performance, and long-term stability indicators all met our criteria. (See Exhibit 16.)

Exhibit 16. Samuel U. Rodgers Health Center, Inc. Financial Ratios

Measure	Audit Year Ending				
	9/30/03	9/30/04	9/30/05	9/30/06	9/30/07
Current Ratio	1.15	1.03	0.55	1.18	3.07
Days of Cash on Hand	7	7	3	25	52
Change in Unrestricted Net Assets	$62,778	($346,791)	($1,012,607)	$1,671,306	$2,421,309
Operating Margin	0%	(3%)	(8%)	11%	16%
Debt to Net Assets	104%	146%	228%	70%	28%

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

The financial condition for SAVE, Inc. and Affiliates is mixed. While SAVE's liquidity and long-term stability indicators met our criteria, its performance indicators (change in unrestricted net assets and operating margin) did not. (See Exhibit 17.)

Exhibit 17. SAVE, Inc. and Affiliates Financial Ratios

Measure	Audit Year Ending				
	6/30/04	6/30/05	6/30/06	6/30/07	6/30/08
Current Ratio	4.33	6.77	6.22	4.76	8.26
Days of Cash on Hand	33	33	31	30	36
Change in Unrestricted Net Assets	($135,103)	$164,022	($46,194)	($87,277)	($36,843)
Operating Margin	(4%)	5%	(1%)	(2%)	(1%)
Debt to Net Assets	19%	16%	16%	17%	18%

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 all met our criteria. (See Exhibit 18.)

Exhibit 18. Swope Health Services Financial Ratios

Measure	Audit Year Ending				
	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07
Current Ratio	3.64	3.73	4.70	4.35	4.87
Days of Cash on Hand	107	143	115	155	166
Change in Unrestricted Net Assets	$776,935	$428,482	$980,903	$291,133	$536,870
Operating Margin	2%	1%	3%	1%	2%
Debt to Net Assets	31%	33%	14%	16%	15%

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 are positive, TIF's long-term stability indicator (debt to fund balance) did not meet our criteria. (See Exhibit 19.)

Exhibit 19. Tax Increment Financing Commission of Kansas City, Missouri, Financial Ratios

Measure[35]	Audit Year Ending				
	4/30/04	4/30/05	4/30//06	4/30/07	4/30/08
Current Ratio	1.79	1.37	2.84	17.14	14.98
Days of Cash on Hand	170	187	275	211	360
Change in Revenues and Other Sources over Expenditures and Other Financing Uses	$5,025,148	$19,308,357	$19,696,063	$9,306,606	$26,167,544
Operating Margin	10%	30%	30%	15%	26%
Debt to Fund Balance	836%	784%	620%	575%	432%

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 current ratio and long-term stability indicator are positive, its days of cash on hand, change in unrestricted net assets, and operating margin did not meet our criteria. (See Exhibit 20.)

[35] For the Tax Increment Financing Commission the agency's fund balance and excess of revenues and other sources over (under) expenditures and other financing are more relevant measures of the Commission's financial health than net assets and unrestricted net assets.

Exhibit 20. Truman Medical Center, Inc. Financial Ratios

	Audit Year Ending				
Measure	6/30/04[36]	6/30/05	6/30/06	6/30/07	6/30/08
Current Ratio	2.09	2.11	1.67	1.30	1.32
Days of Cash on Hand	13	20	10	6	6
Change in Unrestricted Net Assets	$1,129,969	$523,687	($9,638,343)	($10,959,984)	(9,594,140)
Operating Margin[37]	(1%)	0.3%	(5%)	(5%)	(1%)
Fixed Asset Financing[37]	53%	48%	43%	45%	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 days of cash on hand and long-term stability indicator are positive, its current ratio and performance indicators (change in unrestricted net assets and operating margin) did not meet our criteria. (See Exhibit 21.)

Exhibit 21. Union Station Kansas City, Inc. and Subsidiary Financial Ratios

	Audit Year Ending				
Measure	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07
Current Ratio	1.52	0.67	0.36	0.73	0.60
Days of Cash on Hand	30	19	24	36	60
Change in Unrestricted Net Assets	($16,720,793)	($13,662,111)	($5,706,500)	$23,959,014	($6,887,479)
Operating Margin	(148%)	(121%)	(30%)	51%	(41%)
Debt to Net Assets	15%	22%	24%	4%	21%

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

[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 long-term stability indicator. Also, we calculated operating margin by dividing operating income by the sum of unrestricted revenues and non-operating income.

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	Significant Deficiency	Non-Compliance[38]	Funding for FY 2008
American Jazz Museum, Inc.	4/30/2008	Unqualified	No	No	No	$ 625,000
Blue Hills Community Services Corporation and Subsidiaries	8/31/2008	Unqualified	No	No	No	351,801
Bridging the Gap, Inc.	4/30/2008	Unqualified	No	No	N/P	438,726
Cabot Westside Health Center	12/31/2007	Unqualified	No	No	N/P	414,670
Children's Mercy Hospital	6/30/2007	Unqualified	***Yes***	***Yes***	***Yes***	1,100,000
Children's Mercy Hospital	6/30/2008	Unqualified	No	***Yes***	***Yes***	1,100,000
Community Assistance Council, Inc.	5/31/2008	Unqualified	No	No	N/P	241,987
Community LINC	12/31/2007	Unqualified	No	No	No	101,278
Convention and Visitors Bureau of Greater Kansas City	12/31/2006	Unqualified	No	No	N/P	7,490,991
Convention and Visitors Bureau of Greater Kansas City	12/31/2007	Unqualified	No	No	N/P	7,490,991
De LaSalle Education Center	6/30/2008	Unqualified	No	No	N/P	200,000
Downtown Kansas City Community Improvement District	4/30/2008	Unqualified	No	No	N/P	215,000
Economic Development Corporation of Kansas City, Mo.	4/30/2008	Unqualified	No	No	No	1,145,000
Family Conservancy, Inc.	12/31/2007	Unqualified	No	No	No	121,348
Friends of the Zoo, Inc., of Kansas City, Missouri	12/31/2007	Unqualified	No	No	N/P	3,425,000
Full Employment Council	6/30/2008	Unqualified	No	No	No	115,278
Good Samaritan Project, Inc.	12/31/2007	Unqualified	No	***Yes***	No	568,707
Greater Kansas City Housing Information Center	12/31/2007	Unqualified	No	No	No	255,230
Guadalupe Centers, Inc.	12/31/2007	Unqualified	***Yes***	***Yes***	No	373,623
Harvesters – The Community Food Network	6/30/2008	Unqualified	No	***Yes***	No	481,413

[38] N/P indicates a compliance report was not prepared. Only agencies expending 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	Significant Deficiency	Non-Compliance[39]	Funding for FY 2008
Homeless Services Coalition of Greater Kansas City	6/30/2008	Unqualified	***Yes***	***Yes***	N/P	105,375
Ivanhoe Neighborhood Council[40]	12/31/2006	Unqualified	No	No	N/P	79,684
Kansas City Area Transportation Authority	12/31/2007	Unqualified	No	No	***Yes***	47,525,999
Kansas City Free Health Clinic	3/31/2008	Unqualified	No	No	No	2,280,418
Land Clearance for Redevelopment Authority	4/30/2008	Unqualified	No	***Yes***	No	590,493
Legal Aid of Western Missouri	12/31/2007	Unqualified	No	No	No	517,599
Liberty Memorial Association	12/31/2007	Unqualified	No	No	No	1,478,000
Metropolitan Ambulance Services Trust	4/30/2008	Unqualified	***Yes***	***Yes***	No	12,375,000
Neighborhood Housing Services of Kansas City, Missouri, Inc.	9/30/2007	Unqualified	No	No	N/P	269,067
Newhouse	12/31/2007	Unqualified	No	No	No	147,122
Northland Health Care Access	12/31/2007	Unqualified	No	No	N/P	305,830
Northland Neighborhoods, Inc.	5/31/2008	Unqualified	No	No	No	366,439
Operation Breakthrough, Inc.	10/31/2007	Unqualified	No	No	No	429,599
reStart, Inc.	12/31/2007	Unqualified	No	***Yes***	No	385,189
Rose Brooks Center, Inc.	6/30/2008	Unqualified	No	No	No	286,901
Samuel U. Rodgers Health Center, Inc.	9/30/2007	Unqualified	***Yes***	***Yes***	***Yes***	1,210,446
SAVE, Inc. and Affiliates	6/30/2008	Unqualified	No	No	No	1,054,239
Swope Community Builders and Subsidiaries	12/31/2007	Unqualified	No	No	No	829,157
Swope Health Services	12/31/2007	Unqualified	No	No	No	1,257,681

[39] N/P indicates a compliance report was not prepared. Only agencies expending 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.

[40] Ivanhoe Neighborhood Council's internal control findings for the year ending December 31, 2006 was not received in time for inclusion in our 2008 report. The agency did not receive $100,000 during the 2008 fiscal year.

Agency	Audit Year Ending	Type of Opinion	Material Weakness	Significant Deficiency	Non-Compliance[41]	Funding for FY 2008
Tax Increment Financing Commission of Kansas City, Mo.	4/30/2008	Unqualified	No	***Yes***	N/P	64,104,175
Truman Medical Center, Inc.	6/30/2008	Unqualified	No	No	No	25,332,574
Union Station Kansas City, Inc. and Subsidiary	12/31/2007	Unqualified	***Yes***	***Yes***	N/P	1,383,542
United Services Community Action Agency	9/30/2007	Unqualified	No	No	No	105,108
United Services Community Action Agency	9/30/2008	Unqualified	No	No	No	105,108
Westside Housing Organization, Inc. and Subsidiaries	5/31/2008	Unqualified	No	***Yes***	No	216,000

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

[41] N/P indicates a compliance report was not prepared. Only agencies expending 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.

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Appendix B

Accounting Term Definitions

Accounting Term Definitions

Material Weakness. 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 (for audit periods ending on or before December 15, 2006).

A material weakness is a control deficiency or combination of control deficiencies that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control structure. A material weakness is also a significant deficiency, however, a significant deficiency is not always serious enough to be a material weakness (for audit periods ending after December 15, 2006).

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.

Reportable Condition. 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.

Significant Deficiency. A significant deficiency is a control deficiency, or a combination of control deficiencies that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

Unqualified Opinion. Auditors issue an unqualified opinion when they see no departures from generally accepted accounting principles. An unqualified opinion states the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the entity in conformity with generally accepted accounting principles.

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Appendix C

Financial Analysis Methodology

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[42] and from the Center for Healthcare Industry Performance Studies for our calculation of the fixed asset financing ratio 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 (e.g. to provide resources or services). We consider a current ratio greater than one to be positive.

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

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 could not 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. We consider more than 30 days of cash on hand to be positive.

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

[42] 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 cannot 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 an increase in revenues and decreases are generally caused by increasing expenses. In some instances we use an agency's change in net assets when the change in unrestricted net assets is not reported. We consider this measure to be positive if unrestricted net assets or net assets increased.

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. In some instances we use change in net assets and change in revenues and other support when unrestricted figures are not reported. 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. We view a positive operating margin as desirable.

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

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

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

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 assets 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.

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

Percentages of less than 50 percent are desirable. 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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