

Performance Audit: Financial Indicators

July 2016

City Auditor
City of Lawrence, Kansas

July 28, 2016

Members of the City Commission

This performance audit of financial indicators for Lawrence is intended to identify significant existing or emerging financial problems, put the City's finances in context, and encourage discussion of City finances.

For the first time, the City was required to show net pension liabilities on the face of the financial statements. Net pension liabilities represent \$58.8 million in long-term liabilities. The change doesn't create new liabilities but it provides better information for decision-making, increased transparency about pension costs and comparable information across different local governments.

The analysis shows mixed results with improvements in measures of liquidity, capital assists for government activities, and financial performance for the enterprise operations. However, indicators worsened for financial performance for government activities and long-term liabilities.

I don't make any recommendations in the report.

I provided the City Manager with a preliminary draft report on July 1 and a final report on July 22, 2016. Because the report includes no recommendations, I offered the City Manager an opportunity to provide a written response, but didn't require one. The City Manager chose not to provide a written response.

A handwritten signature in blue ink that reads "Michael Eglinski". The signature is written in a cursive, flowing style.

Michael Eglinski
City Auditor

Performance Audit: Financial Indicators

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Performance Audit: Financial Indicators

Results in Brief

This analysis of financial indicators for Lawrence is intended to identify significant existing or emerging financial problems, put the City's finances in context, and encourage discussion. Among the highlights:

- The City's financial statements show net pension liabilities of \$58.8 million. The liabilities represent the promise to provide pension benefits for City employees. Those promises have always existed, but until this year weren't shown on the financial statements.
- Governmental activities liquidity and capital assets improved. However, indicators of financial performance and long-term liabilities have worsened.
- The capital asset indicator for government activities improved as the City added infrastructure at Rock Chalk Park and Venture Park. The indicator remains lowest for machinery and equipment.
- Business activities indicators for financial performance and liquidity improved. However, the long-term liabilities indicator worsened.
- Governmental fund trends in inflation adjusted debt, revenue and expenditures per resident show general long-term growth of both revenue and expenditures. The debt indicator grew sharply in recent years.
- Indicators of community resources – employment, assessed value, and inflation-adjusted sales – grew in 2015. Over the longer-term, employment, assessed value, and inflation-adjusted sales have been relatively flat. An area of concern is that private job growth has been offset by reduced work hours and earnings remain low.

The report does not include any recommendations.

Performance Audit: Financial Indicators

Financial indicators help understand Lawrence's financial condition

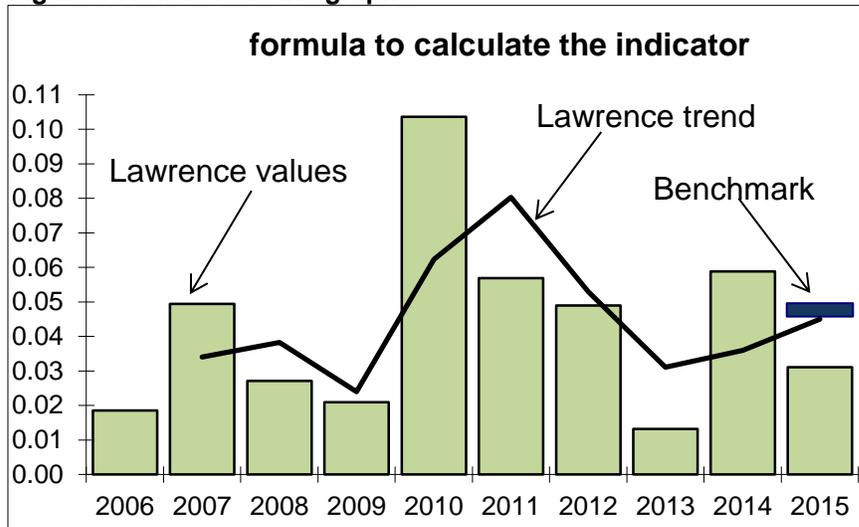
This performance audit, which analyzes financial ratios, provides the City Commission and city management with information about Lawrence's finances. The performance audit is intended to encourage discussion of the city's finances and to:

- identify significant existing or emerging financial problems
- put the city's finances in context by compiling data for 10 years and comparing to benchmarks

This report includes 10 years of data for Lawrence (2006-2015) and compares data for Lawrence with benchmarks. Most of the benchmarks are medians based on an analysis of similar communities. Comprehensive annual financial reports provide most of the data. Information from the annual financial reports provides consistent, reliable data because it conforms to generally accepted accounting principles and is audited under generally accepted government auditing standards.

Financial ratios are presented as graphs throughout the report. To evaluate the ratios consider the trend and the level compared to the benchmark. Throughout the report, indicators are characterized as more or less favorable in terms of both the trend over the last three years and the level in relation to the benchmark. Graphs for each indicator also show a trend line for the entire 10-year period to help identify long-term trends.

Figure 1 How to read the graphs



The cities used to create medians for comparison to Lawrence have characteristics similar to Lawrence. Based on data from the U.S. Census Bureau, the communities have similar urban area populations, portion under the age of 18, per capita income, and median age of housing. All of the cities have significant university student populations.

Analyzing financial ratios provides an assessment of Lawrence’s financial condition, but it is important to recognize strengths and limitations to this sort of analysis. Figure 2 highlights some of the strengths and weaknesses of the ratio analysis method.

Table 1 Strengths and limitations of ratio analysis

Strengths	Limitations
Lawrence data compiled under consistent accounting principles and audited under Government Auditing Standards	Analysis provides a broad overview rather than detailed analysis
Ratios developed independent of city management to provide an independent view of Lawrence finances	Excludes information on level and quality of services and infrastructure
Comparative data compiled under consistent accounting principles and audited under Government Auditing Standards	Excludes external factors, such as demographic and economic trends, that may affect city finances
Accrual accounting provides info to understand long-term financial condition	Provides historical analysis rather than projections of future condition

Government activities financial indicator analysis

Government activities include public safety, public works and general government. Taxes provide the funding for most of government activities. The following table summarizes the results of the analysis of financial ratios for government activities. Note that this was the first year the City showed the pension liabilities on the face of the financial statements. While pension liabilities aren't new, including them in the financial statement analysis is new and has the effect of worsening some of the ratios.

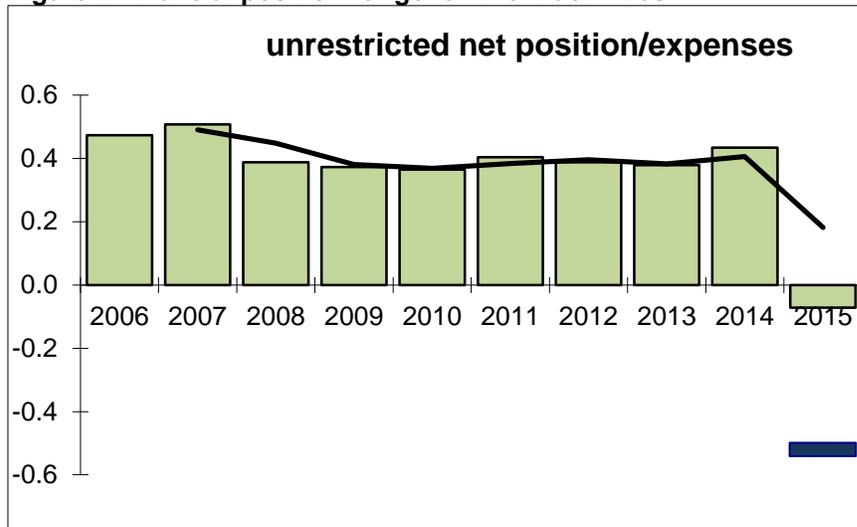
Table 2 Governmental activities indicator summary

Measure	Trend	Compared to benchmark	Compared to last year's analysis
Position: ability to maintain services	No clear trend	More favorable	Unchanged
Performance: financial resource growth	No clear trend	Less favorable	Worsened
General support: reliance on taxes and transfers to pay expenses	No clear trend	Not evaluated	Unchanged
Liquidity: resources to meet immediate needs	More favorable	More favorable	Improved
Long-term liabilities: burden of debt and other long-term liabilities	Less favorable	Less favorable	Worsened
Interest coverage: interest payment effect on flexibility	No clear trend	Less favorable	Unchanged
Capital assets: aging of capital assets	More favorable	More favorable	Improved

Financial position: ability to maintain services

Lawrence's financial position shows no clear trend and a level more favorable than the benchmark. However, the measure is negative in 2016. The measure indicates the City's ability to maintain the provision of services. Most of the City's net position consists of capital assets or is otherwise restricted. A negative unrestricted net position doesn't mean the City is in immediate financial danger, but it indicates that the City doesn't have resources adequate to immediately cover all of its ongoing obligations to residents and creditors. As cities add pension liabilities to their financial statements, many cities show negative unrestricted net position. More than half of the similar communities have negative unrestricted net position in their latest financial audit.

Figure 2 Financial position for government activities



Lawrence's financial position indicator is negative largely because of net pension liabilities of \$47 million. Prior to 2015, that liability wasn't included in the City's financial statements. The liability is a proportion of the Kansas Public Employee Retirement System's liability. It represents the difference between the obligation to provide pension benefits and the value of the assets available to pay those benefits. The City doesn't control KPERS, but actions that KPERS takes to improve the financial condition of those plans may increase the financial burden on the City.

It isn't just Lawrence

Cities are now required to report net pension liabilities in the financial statements. This requirement began 2015 and many cities now show a significant liability that they didn't show just a year ago.

Net pension liabilities are based on the promise to provide pension benefits for City employees when they retire. It is a part of employee compensation. Those promises have always existed, but haven't been shown on the face of the financial statements until this year. The net liability reflects the portion of the pension that is not covered by assets.

The change doesn't create new liabilities, but it shows them prominently for the first time. The change was designed to:

- Improve information about pension costs for decision-making
- Increase the transparency about pension costs
- Provide more consistent and comparable information across different local governments

After the change in pension liability reporting, most of the cities included in this year's analysis reported negative amounts for unrestricted net position. Lawrence's indicator of financial position, which is based on unrestricted net position, was well above the median of the group of similar communities.

The change in how cities report pension liabilities is unlikely to affect cities' credit ratings because rating agencies were already aware of the liabilities associated with the pensions. The rating agencies already considered pension liabilities as debt-like obligations.

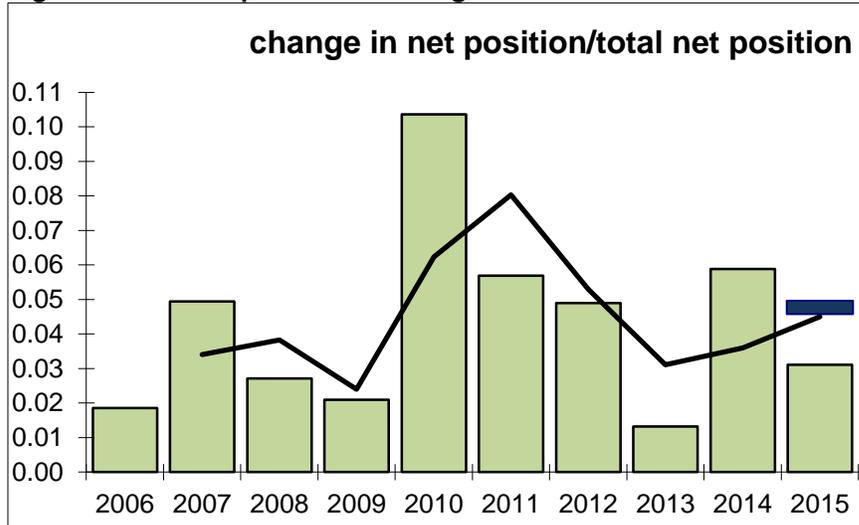
While pension liabilities are debt-like there are important differences. Pension liabilities are calculated based on economic and actuarial assumptions. Pension liabilities are affected by policy choices about hiring, benefits and funding. Compared to bonded debt, pension liabilities are more flexible and volatile.

The City doesn't directly control the net pension liability except that the City decides the number of employees. The State controls the Kansas Public Employee Retirement System, because the State sets benefits and employer contributions, and the system is a corporation and instrumentality of the state. According to KPERS, improving the funding status of the system depends on investment returns and increasing contributions from employers.

Financial performance: rate resources grow

Lawrence's financial performance shows no clear trend and is less favorable than the benchmark. The measure indicates the rate at which resources grow.

Figure 3 Financial performance for government activities

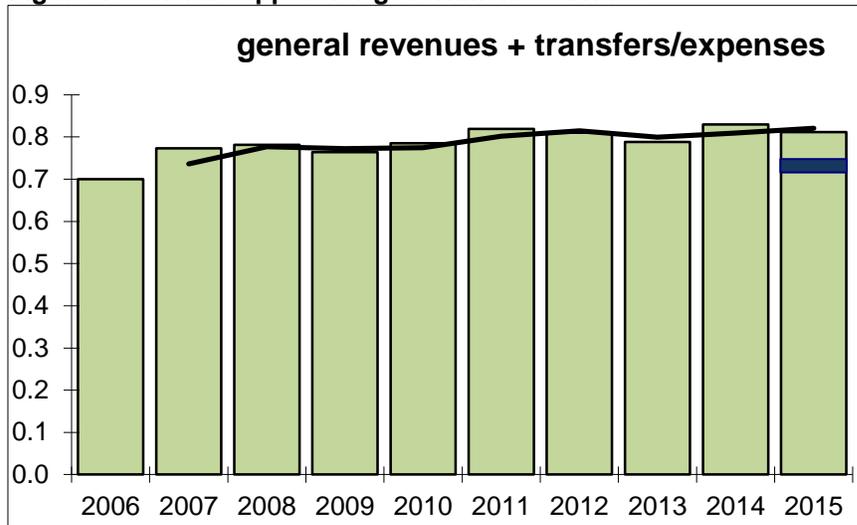


The financial performance indicator worsened compared to last year. Last year the indicator was unusually strong and this year the indicator was closer to the long-term average. The very high level for this indicator in 2010 reflects the \$8.5 million the City received when it acquired the former Farmland property and \$2 million in federal American Recovery and Reinvestment Action funds.

General Support: reliance on taxes and transfers to pay expenses

Lawrence's general support indicator shows no clear trend. This indicator is evaluated only on the trend. The indicator reflects the extent to which the City relies on general taxes and transfers rather than service charges and grants. Higher levels, such as Lawrence's, indicate a greater reliance on taxes and transfers and a lesser reliance on charges for service and grants.

Figure 4 General support for government activities



The City has reduced the extent to which it relies on charges for services to fund governmental activities and increased the extent to which it relies on taxes and transfers. Charges for service can help recover the costs of providing services and can provide an efficient and fair way to provide goods and services. The City's user fee policy calls for regular analysis of fees to help ensure fees levels are appropriate.¹

City relies more on taxes and transfers than on charges for service

Charges for services cover less of the City's expenses in 2015 than they did 10 years ago. The City has increasingly relied on general revenues, such as property and sales taxes, and transfers from the enterprise operation to cover expenses. If charges for services had remained at a similar portion of expenses, the City would have had about \$600,000 more in revenue in 2015. The level of charges for services is below the median level of group of similar communities. If Lawrence were at the median level, charges for service would be about \$3 million higher.

One reason charges may have decreased is that some fees were set years ago and haven't been updated. A 2011 analysis of a small sample of City fees found that half of the fees hadn't been updated in 18 years.

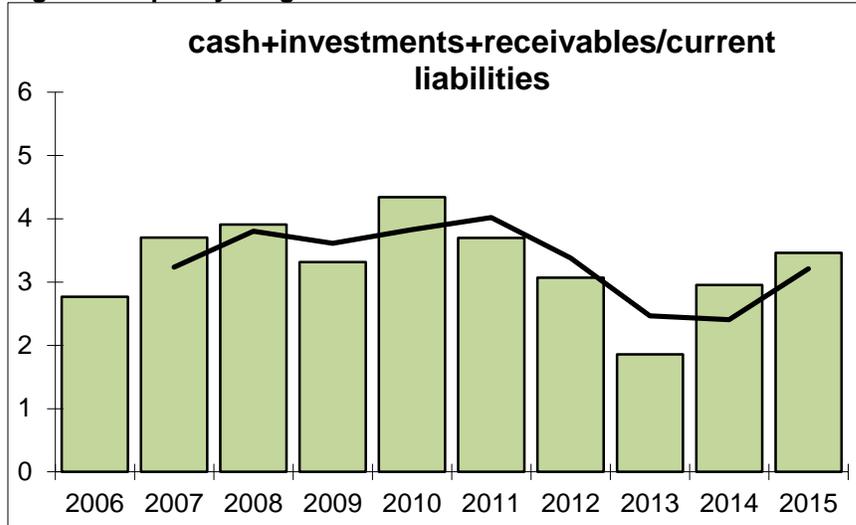
Periodically reviewing fees helps ensure the appropriate match of fee revenue and service costs. The City User Fee Policy calls for reviewing fees at least once every five years.

¹ *City of Lawrence User Fee Policy*, adopted August 7, 2012.

Liquidity: ability to meet immediate needs

Lawrence’s liquidity shows a favorable trend and is more favorable than the benchmark. The measure indicates the City’s ability to meet immediate needs. For this indicator, the benchmark is the median for Lawrence over the 10-year period. The level in 2015 was above the median of 3.38.

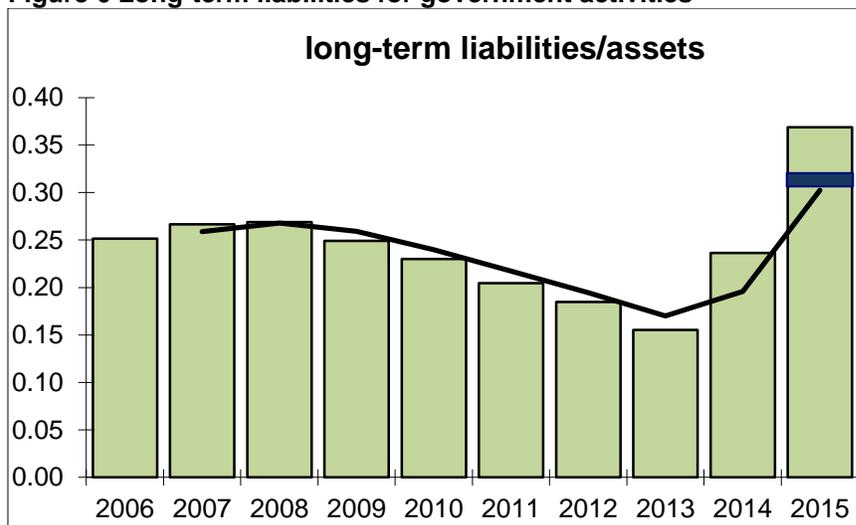
Figure 5 Liquidity for government activities



Long-term liabilities: debt burden

Lawrence’s long-term liabilities indicator shows a less favorable trend and is above the benchmark. The indicator measures the burden of debt and other long-term liabilities.

Figure 6 Long-term liabilities for government activities



Lawrence’s net pension liability is somewhat higher than the median of the similar communities. The net pension liability for governmental activities in Lawrence is 48 percent of expenses while the median is 39 percent.

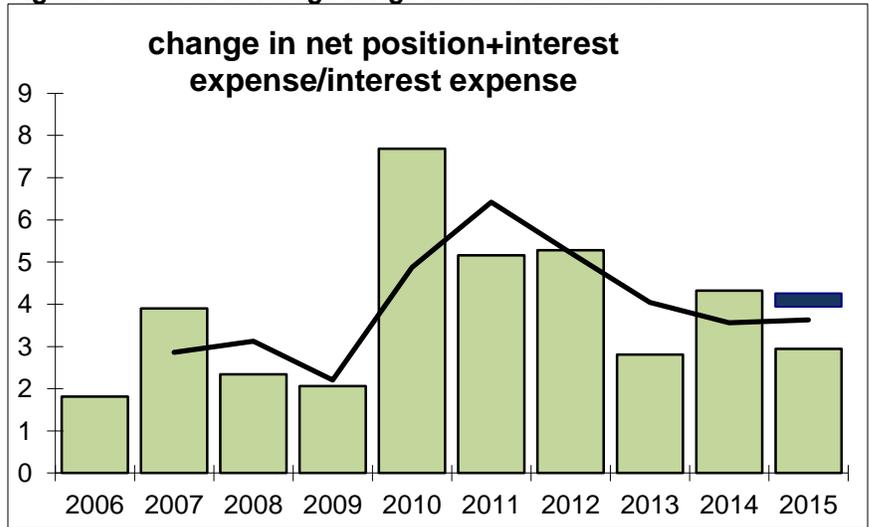
“Overlapping” pension liabilities

The school district and the County provide pensions for employees and have tax bases that overlap with the City. The overlapping net pension liability for the City, County, school district, library, health department and housing department total about \$170 million, with the school district representing over half of the total. Overlapping bonded debt totals about \$190 million.

Interest coverage: interest payment effect on flexibility

Lawrence’s interest coverage indicator shows no clear trend and is less favorable than the benchmark. Higher levels generally indicate more flexibility.

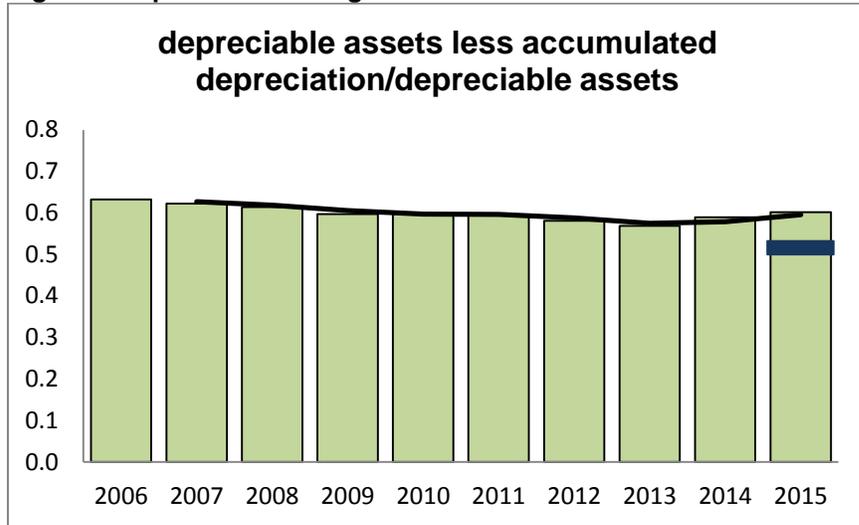
Figure 7 Interest coverage for government activities



Capital assets: aging of capital assets

The capital assets indicator shows a favorable trend and is more favorable than the benchmark. The indicator measures the aging of capital assets such as streets, buildings and vehicles.

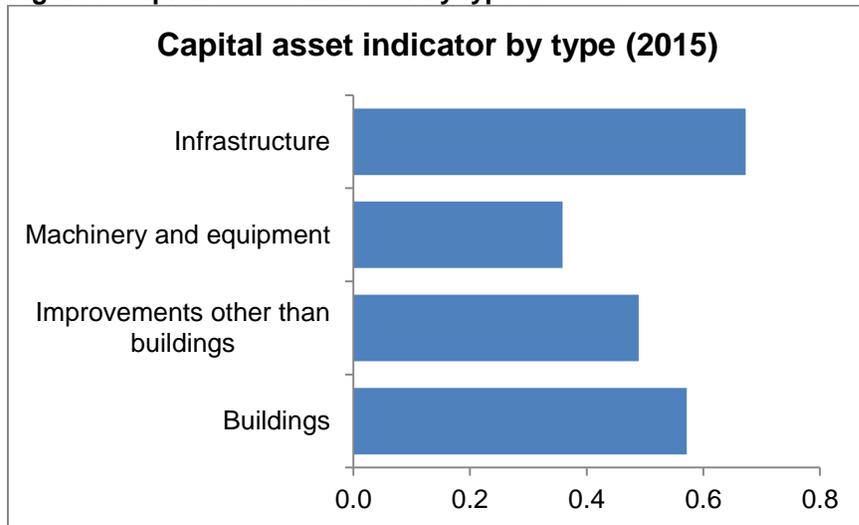
Figure 8 Capital assets for government activities



The capital asset indicator improved compared to last year. 2015 was the second year in a row that the indicator increased. In both years, the city added major capital assets including the new library, the new recreation center, infrastructure at Rock Chalk Park, and infrastructure at Venture Park.

Machinery and equipment assets have the least favorable level for the capital assets indicator. This indicates a higher chance that the City will face significant replacement costs or service disruptions in the near future. The indicator for machinery and equipment improved in 2015, but was below the level it was at in 2013.

Figure 9 Capital assets indicator by type of asset



Business activities financial indicator analysis

The City of Lawrence business activities include water and sewer, solid waste, parking, stormwater and golf. User fees and charges provide most of the support for these business activities. The following table summarizes the results of the analysis of the indicators for business activities. Note that this was the first year the City showed the pension liabilities on the face of the financial statements. While pension liabilities aren't new, including them in the financial statement analysis is new and has the effect of worsening some of the ratios.

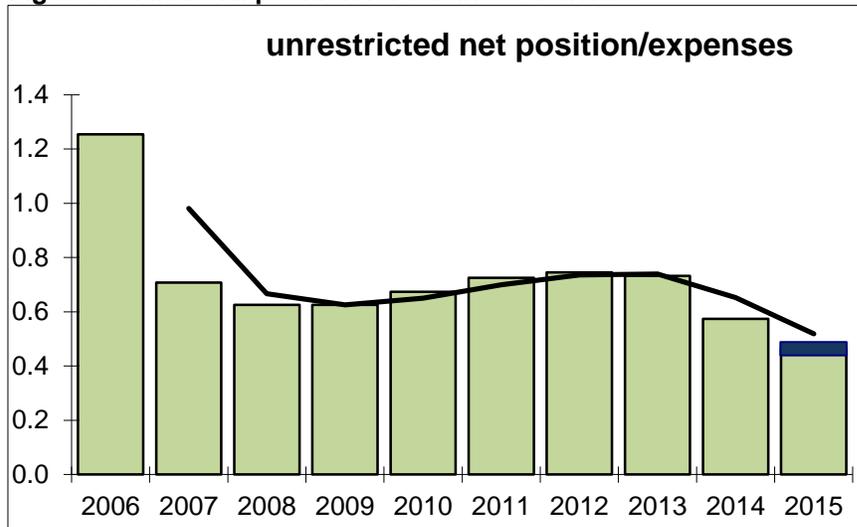
Table 3 Business activities indicator summary

Measure	Trend	Compared to benchmark	Compared to last year's analysis
Position: ability to maintain services	Less favorable	At benchmark	Improved
Performance: financial resource growth	No clear trend	Less favorable	Improved
General support: reliance on taxes and transfers to pay expenses	More favorable	No evaluated	Unchanged
Liquidity: resources to meet immediate needs	No clear trend	More favorable	Improved
Long-term liabilities: burden of debt and other long-term liabilities	No clear trend	Less favorable	Worsened
Capital assets: aging of capital assets	Less favorable	More favorable	Unchanged

Financial position: ability to maintain services

Lawrence's financial position shows a less favorable trend and is at the benchmark. The measure indicates the City's ability to maintain the provision of services.

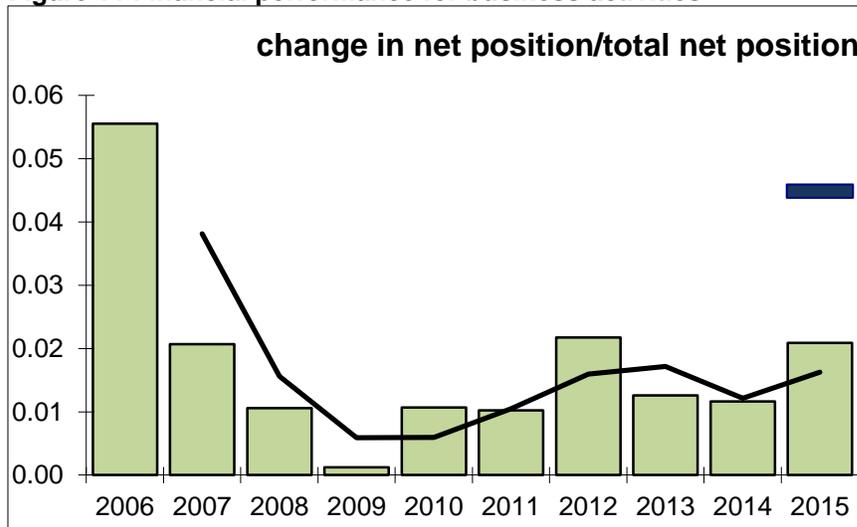
Figure 10 Financial position for business activities



Financial performance: rate resources grow

Lawrence’s financial performance shows no clear trend and is less favorable than the benchmark. The measure indicates the rate at which resources grow.

Figure 11 Financial performance for business activities



The financial performance indicator improved compared to last year and is at the third highest level in the 10-year period, despite being below the benchmark. Financial performance has typically been dependent on water sales, but it improved in 2015 despite relatively low sales of water. The performance indicator’s improvement partly reflects a decrease in solid waste expenses.

Solid waste expenses and program changes

Adjusted for inflation, solid waste expenses in 2015 were just 1.8 percent higher than they were 10 years earlier despite adding curbside recycling services. Beginning about five years ago, the City began making changes to solid waste services and 2015 was the first full year of curbside recycling.

Program changes in the last five years included:

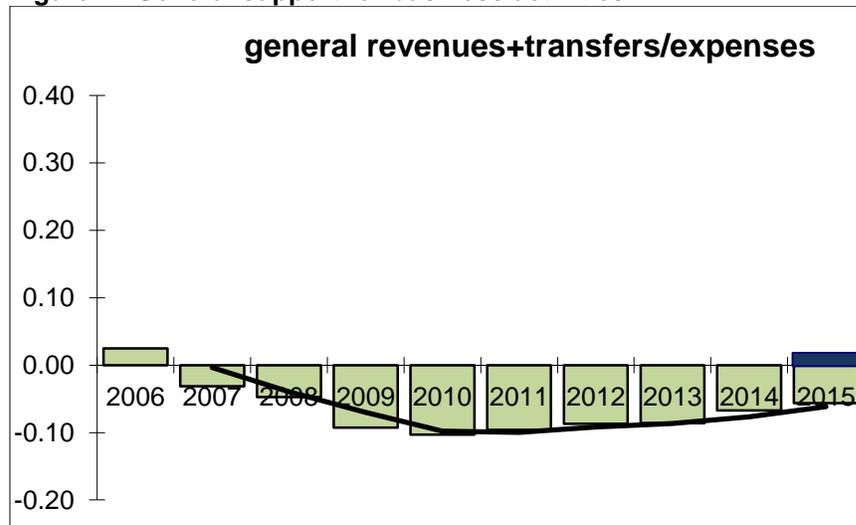
- Increased automation and providing customers with trash carts;
- Pricing options based on the amount of trash customers throw away; and
- Curbside recycling

Changes were implemented after the *Performance Audit: Solid Waste Division* (January 2010) and the *Solid Waste Task Force* (January 2012).

General support: reliance on taxes and transfers to pay expenses

Lawrence's general support shows a trend toward the benchmark which is considered more favorable. The indicator reflects the extent to which the enterprise operations rely on taxes rather than service charges, and a level below zero shows that the enterprise operations overall contribute to funding government activities.

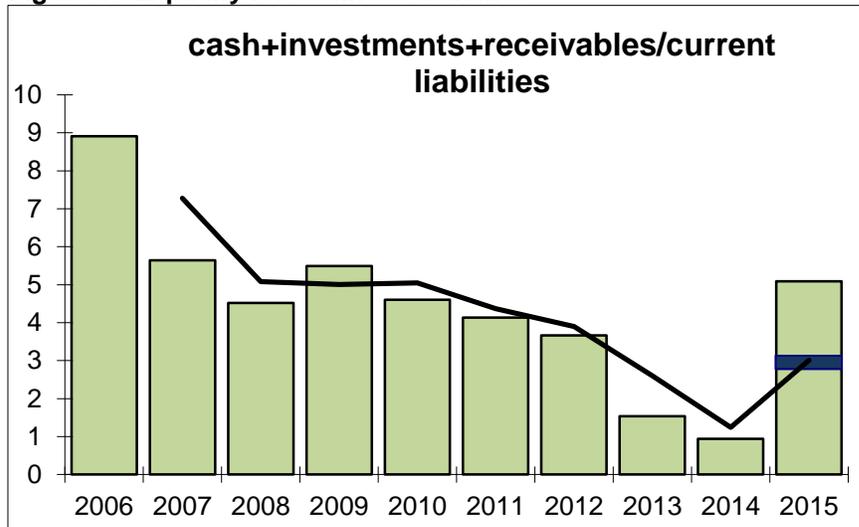
Figure 12 General support for business activities



Liquidity: ability to meet immediate needs

Lawrence's liquidity shows no clear trend and is more favorable than the benchmark. The measure indicates the City's ability to meet immediate needs.

Figure 13 Liquidity for business activities

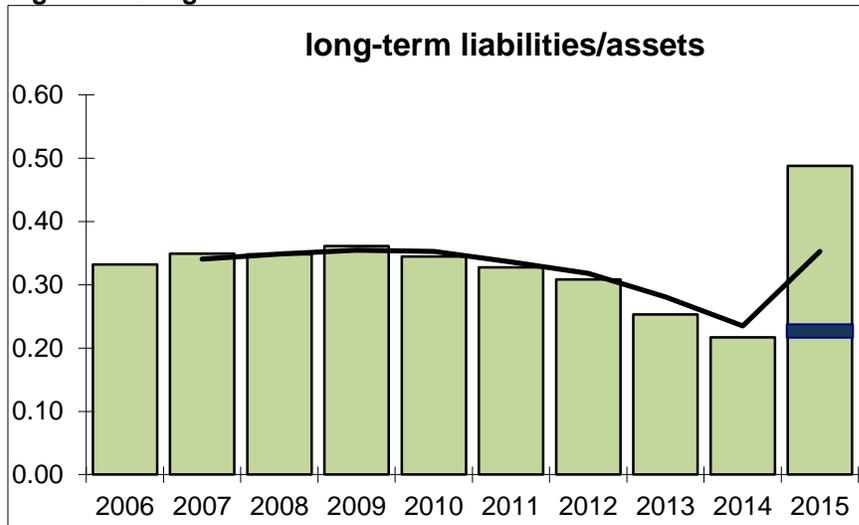


The low levels of liquidity in 2013 and 2014 reflect the use of temporary notes to fund construction projects. The City uses temporary notes to pay for construction projects and then issues long-term bonds to repay the temporary notes. Large amounts of temporary note debt reduce the City's liquidity.

Long-term liabilities: debt burden

Lawrence's long-term liabilities indicator shows no clear trend and is less favorable than the benchmark. The indicator measures the burden of debt and other long-term liabilities.

Figure 14 Long-term liabilities for business activities



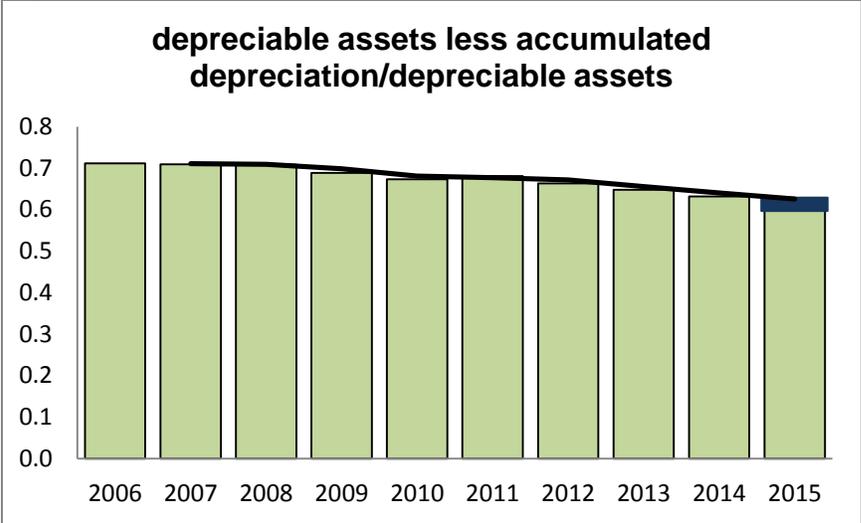
The sharp growth in long-term liabilities for 2015 reflects an increase in long-term debt and the inclusion of net pension liabilities. The City issued

revenue bonds for a number of projects related to water and sewer services in 2015. The business activities' liabilities also include \$11.5 million for a share of the Kansas Public Employee Retirement System net pension liability. That pension liability represents the difference between the obligation to provide pension benefits and the value of the assets available to pay those benefits

Capital assets: aging of capital assets

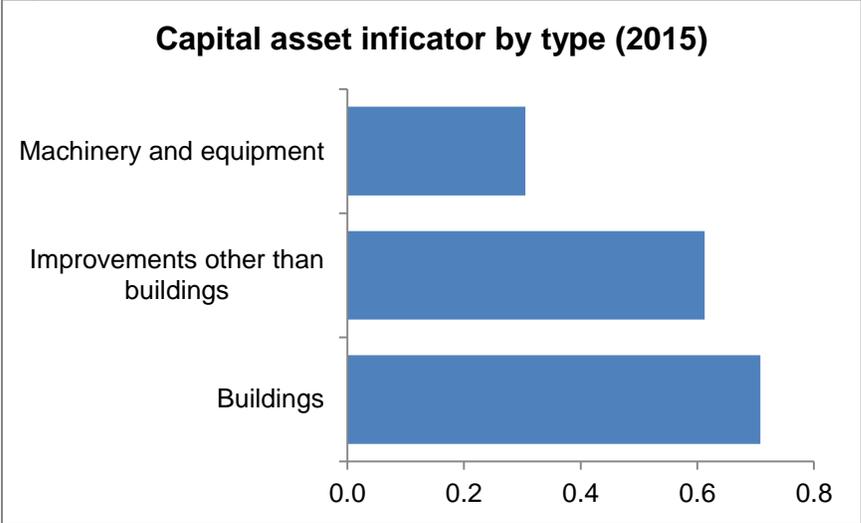
Lawrence's capital assets indicator shows a less favorable trend and is more favorable than the benchmark. The indicator measures the aging of capital assets such as water and sewer mains, buildings and vehicles.

Figure 15 Capital assets for business activities



Machinery and equipment assets have the least favorable level for the capital assets indicator. This indicates a higher chance that the City will face significant replacement costs or service disruptions in the near future.

Figure 16 Capital assets indicator by type of asset

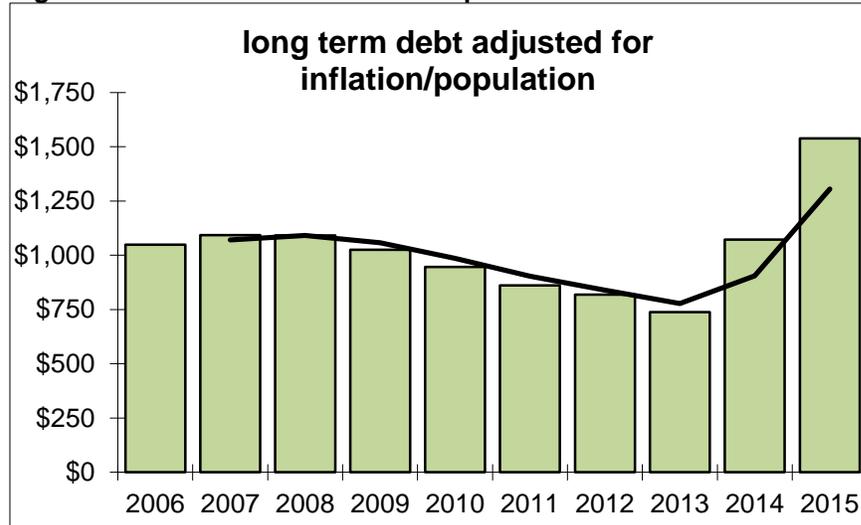


Debt, revenue and expenditure trends

Debt, revenue and expenditure trends provide information on financial flexibility and sustainability. The graphs show data for all governmental funds. The graphs adjust for inflation and show each measure per Lawrence resident.²

Inflation adjusted long-term debt per resident increased in 2015 and was at the highest level over the 10-year period. Note that 2015 includes net pension liability as a long-term debt, which was not included in 2014.

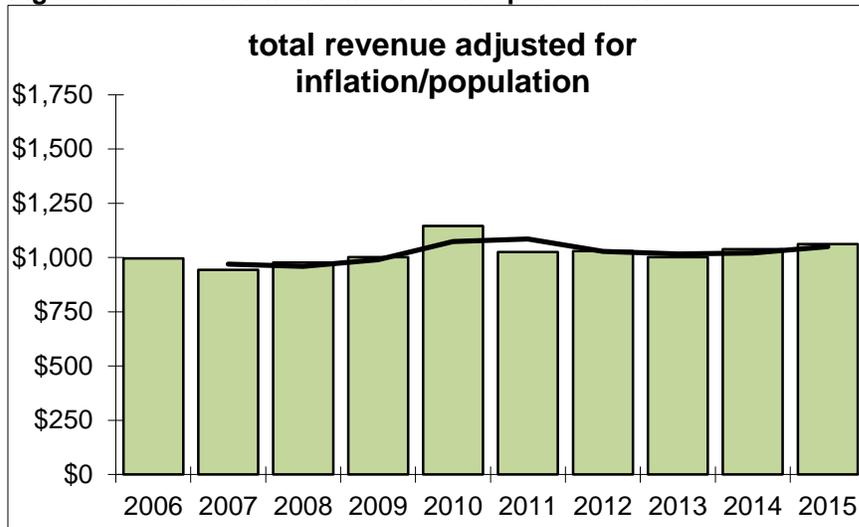
Figure 17 Governmental funds debt per resident



Inflation adjusted revenue per resident has generally risen during the 10-year period.

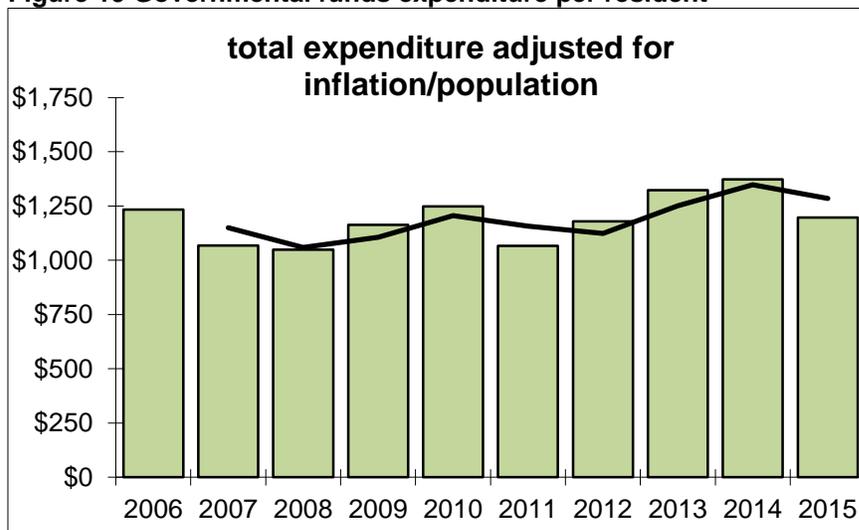
² The analysis uses population estimates reported in the City's Comprehensive Annual Financial Report. Those estimates show a population greater than that shown in the U.S. Census Bureau estimates. The City estimated Lawrence's population as 97,193 in 2015. The Census estimated Lawrence's population as 93,917 in 2015.

Figure 18 Governmental funds revenue per resident



Inflation adjusted expenditure per resident declined in 2015 and has generally risen during the 10-year period.

Figure 19 Governmental funds expenditure per resident



Lawrence's unassigned general fund balance declined slightly in 2015 and was at about the same level as it was in 2011. Lawrence's level of general fund balance as a percent of expenditures (20.6 percent) was below the median of the group of similar communities (22.9 percent). Most of the similar communities grew their unassigned general fund balances since 2011, although three had fund balances that declined.

Capital improvement planning and financial forecast provide forward-looking financial information

The City has begun preparing a 5-year capital improvement plan (CIP) and presented 5-year financial forecasts, providing the City Commission and residents with forward-looking financial information. This sort of information provides context to understand the City's financial sustainability. The 2011 *Financial Indicators* performance audit recommended both the CIP and financial forecast.

- The CIP for 2017-2021 identifies projects, funding, and priorities. The document also identified unfunded projects totaling about \$15 million in 2017 and \$100 million for the entire 5-year period.
- The forecast for 2016-2021 provides revenue and expenditure trends for 14 City funds. The forecast highlights the gap between revenue and expenditure growth in the General Fund, indicating a “structural imbalance.”³

Both of these tools provide context and help guide policy and program decisions.

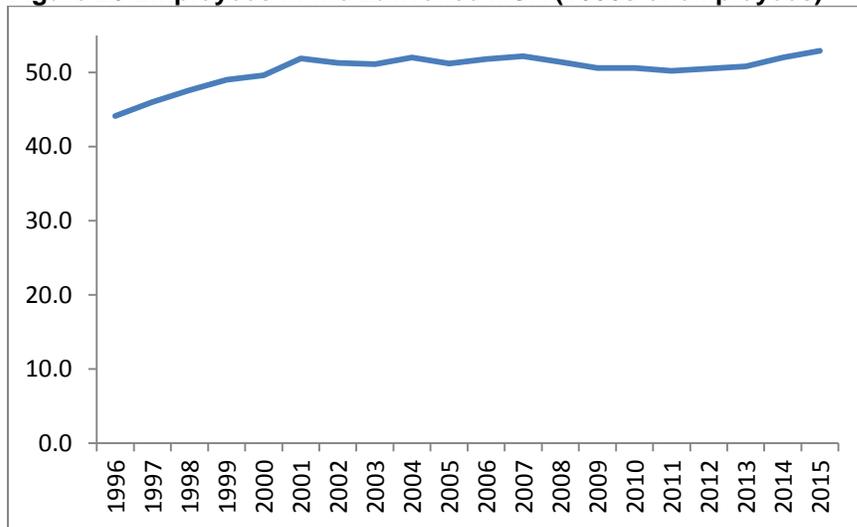
³ Although there isn't a uniform definition of structural balance, one definition is that a structural balance requires that current revenues and expenditures are in balance, adequate fund balance is maintained, maintenance is not deferred, and expected revenue growth is greater than or equal to expected expenditure growth.

General indicators of the economic environment

Measures of employment, assessed value and taxable sales provide additional context for understanding the economic environment and the City's finances. These indicators can help understand the community's resources.

The number of employees on non-farm payrolls in the Lawrence metropolitan statistical area increased in 2015 and was at its highest level at 52,900. The measure counts employees by the area where the job is located regardless of where the employee lives. The Lawrence metropolitan statistical area includes all of Douglas County. Employment has shown relatively little growth since 2001 when it was at 51,900.

Figure 20 Employees in the Lawrence MSA (1000s of employees)



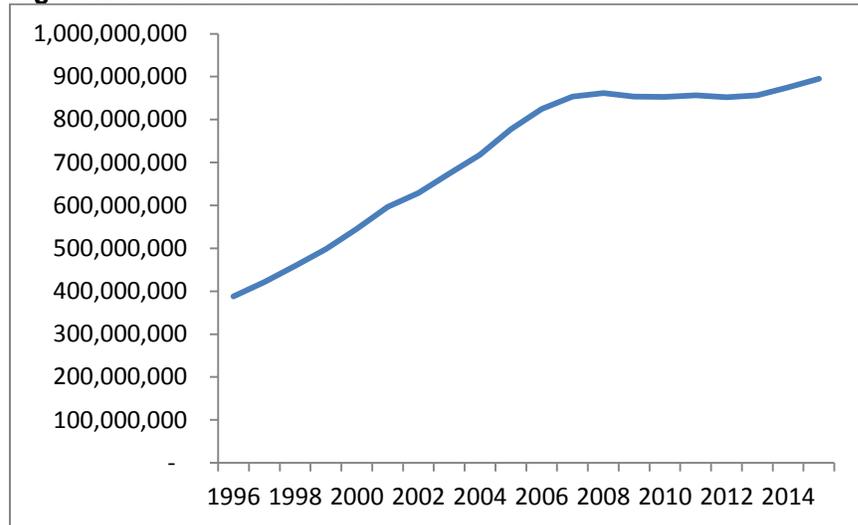
Job growth can be offset by reduced work hours

Private employment in Lawrence increased in recent years (2013-2015), but the average weekly hours worked by private employees declined. Private employment grew from about 34,900 to about 36,400. But during the same time period, average hours worked declined and by about 2.7 hours per week. Private employees in Lawrence work relatively few hours per week. Recent data from the Bureau of Labor Statistics show that average weekly hours for private employees were 28 hours in April 2016. That ranked Lawrence last among the 387 metropolitan statistical areas included in the data. Lawrence's level is low when compared to the similar cities included in the data. The median value for 13 similar cities was 31.9 hours, nearly four hours per week higher.⁴

Average hourly earnings for private employees in Lawrence were also relatively low. The BLS data for April 2006 show that average hourly earnings for private employees were \$18.89 in Lawrence. Lawrence ranked 348th of the 387 areas included in the data. Lawrence was also below the median of the similar cities included in the data. The median value for those cities was \$22.52.

Total assessed valuation in Lawrence increased in 2015 and reached its highest level. Total assessed value has been relatively flat since 2008.

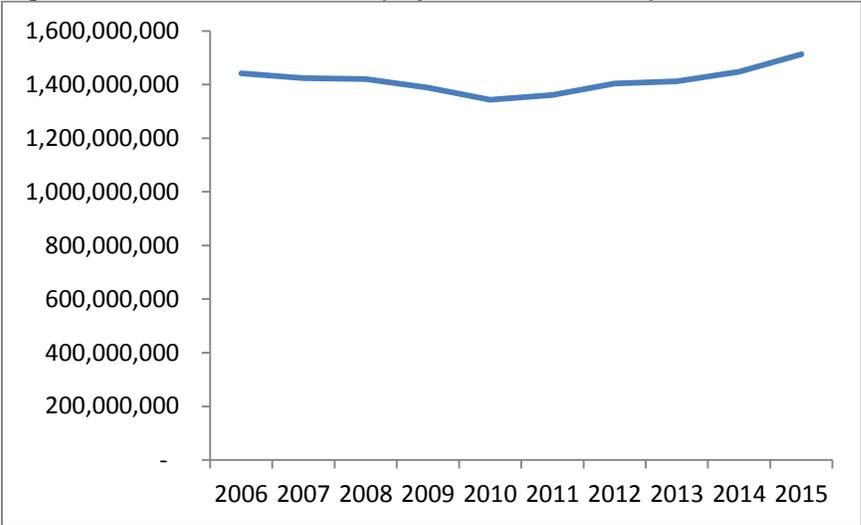
Figure 21 Total assessed value



Inflation adjusted taxable retail sales grew in 2015 and reached its highest level in the 10-year period. Taxable retail sales declined from 2006-2010 but has increased since then.

⁴ The Bureau of Labor Statistics of the U.S. Department of Labor provides the data for 387 metropolitan statistical areas. Three of the similar cities were excluded from the analysis because they are parts of the much larger MSAs of Chicago, Oklahoma City, and Sacramento.

Figure 22 Taxable retail sales (adjusted for inflation)



Performance Audit: Financial Indicators

Scope, methods and objectives

Analyzing financial ratios provides the City Commission and city management with an assessment of Lawrence's financial condition. The analysis is intended to encourage discussion of the city's financial condition and to:

- Identify significant existing or emerging financial problems; and
- Put the city's financial condition in context of the 10 year period of 2006-2015 and through comparisons to benchmarks.

This performance audit was conducted pursuant to City Code 1-4A01 which establishes the Office of the City Auditor.

The City Auditor updated the analysis done in *Performance Audit: Financial Indicators* (July 2015). The auditor compiled information from Comprehensive Annual Financial Reports or financial statements for Lawrence and 14 similar cities; evaluated ratios for Lawrence by looking at trends and comparing Lawrence to benchmarks. Most of the benchmarks are based on medians of the group of cities. Chaney, Mead and Scherman developed most of the indicators in this performance audit.⁵

The City Auditor conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require planning and performing the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. The City Auditor believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

⁵ Barbara A. Chaney, Dean Michael Mead, and Kenneth R. Scherman, "The New Governmental Financial Reporting Model: What it Means for Analyzing Government Financial Condition," *Journal of Government Financial Management*, Spring 2002.

What is the source of the financial information in this report?

Comprehensive annual financial reports and financial statements from Lawrence and the similar cities provide the financial data used in this performance audit. Nearly all of the information comes from the government-wide financial statements. Those statements rely on “full accrual” accounting. That means that the financial statements include capital assets and long-term liabilities as well as current assets and liabilities. The government-wide financial statements report all revenues and costs of providing government services, not just those received or paid in the current year or soon after.

The government-wide financial statements provide information about the cost of government services, including the cost of consumption of capital as well as financial resources. Capital resources include buildings, machinery, roads, and other assets.

The City Auditor provided a preliminary draft of the report on July 1, 2016, and a final draft of the report to the City Manager on July 22, 2016. Because the report doesn’t include any recommendations, the City Manager was offered the opportunity to provide a response, but a response was not required. The City Manager chose not to provide a written response.

Comparable communities

To identify comparable cities, the City Auditor reviewed data from the U.S. Census Bureau American Community Survey 2005-2009 five-year estimates. Data on 3,602 urban areas and urban clusters were used to identify those most similar to Lawrence on four measures:

- Population of the urban area or cluster
- Portion of residents under the age of 18
- Per capita income
- Median year of construction of housing

Table 4 Similar communities

Urbanized area	Population	Per capita income 2009	Median year housing built	Portion of population under 18
Lawrence, KS	83,482	22,289	1978	15.9%
Iowa City, IA	94,499	24,770	1978	17.0%
Bellingham, WA	96,400	24,151	1979	17.0%
Norman, OK	92,321	24,257	1978	18.0%
Missoula, MT	77,502	21,829	1974	18.0%
Bloomington, IN	93,884	19,071	1978	14.3%
Charlottesville, VA	87,086	26,624	1977	17.9%
Chico, CA	96,424	22,839	1978	19.3%
DeKalb, IL	62,167	20,829	1975	18.2%
St. Cloud, MN	97,914	23,587	1980	19.9%
Auburn, AL	66,206	21,337	1985	17.7%
Corvallis, OR	59,610	22,738	1975	18.3%
Davis, CA	67,947	28,590	1978	16.0%
Morgantown, WV	60,920	21,042	1972	15.0%
State College, PA	76,348	20,038	1976	11.0%
Grand Forks, ND-MN	57,403	22,416	1974	18.3%

Based on more recent data, the grouping of similar cities remains valid. A cluster analysis of data from the U.S. Census Bureau American Community Survey 2013 5-year data for 3,573 urban areas put all of the similar communities in figure 30 into the same cluster. This indicates that the communities remain similar with more current data. The cluster analysis used urban area population, household income, age dependence and recent housing construction.

The City Auditor excluded Bloomington from the analysis because Bloomington did not follow accounting principles generally accepted in the U.S. in its most recent annual financial report. Consequently, the financial statements from Bloomington would not be comparable to the financial statements from Lawrence or the other similar communities.

The City Auditor calculated ratios using the most recent available comprehensive annual financial report or financial statement audit report. All but two of the annual reports from other cities cover a 2015 fiscal year.

Key Terms

City finances cover both governmental activities and business-type activities. **Governmental activities** include services like police and fire,

public works, and administration. **Business-type activities** include services paid for largely by charges for service, such as trash collection and water and sewer utilities.

City **assets** are resources the city can use to provide services and operate the government. Among other things, assets include cash, investments, land, buildings, streets and water mains.

City **liabilities** are obligations the city has to turn over resources to other organizations or individuals. Liabilities include things like money the city has to pay to companies that provide services to the city and repayments for money the city borrowed.

Subtract liabilities from assets and adjust for deferred in and outflows of resources and the result is **net position**. The portion of net position that is not restricted for other uses and that may be used to meet ongoing obligations is referred to as **unrestricted net position**.

The city collects taxes, such as sales taxes and property taxes, as **general revenues**. In addition to general revenues, **transfers** from other governmental activities can provide resources.

Expenses include costs incurred regardless of whether or not cash has actually changed hands. Expenses include depreciation of capital assets. These “accrual-basis” expenses provide a comprehensive measure of the cost of providing services.