

April 30, 2015

REPORT#: 2015-11

Cindy Cleary, Director of Libraries Arts & Culture
Roubik Golanian, Director of Public Works

Re: Central Library Potential Contractors' Financial Ratio Analysis

Dear Cindy and Roubik,

In accordance with your request, Internal Audit calculated financial ratios and verified that two bidders for the Central Library renovation project submitted either reviewed or audited financial statements for the past two fiscal years that were prepared by an independent accountant.

Internal Audit utilized the financial statement data to calculate seven financial ratios for each bidder by fiscal year. The financial ratios selected measure performance in terms of leverage, liquidity, and profitability which provides relevant information on the relationship of financial accounts when used collectively. The financial ratios with a brief description are presented on the following page in Exhibit A.

It is important to note Internal Audit is not expressing an opinion on the financial health or risk level of the entities. The ratio information is meant to provide another relevant and useful tool to assist in the bid evaluation process.

In addition to the ratio analysis, Internal Audit confirmed the submission of current bank statements for the three (3) months prior to the bid deadline to demonstrate that the bidder met the financial resource qualification of having unrestricted cash on hand or other liquid assets of at least three million dollars (\$3,000,000).

Internal Audit would like to thank you and your staff for the support and assistance provided to us during this project. Should you have any questions, please feel free to contact Natalie Minami-Valdivia or myself.

Thank you,



Eileen Donahue
Internal Audit Manager

cc: Yasmin Beers, Assistant City Manager
Robert Elliot, Director of Finance
Michele Flynn, Assistant Director of Finance
Hagop Kassabian, Senior Project Manager
Scott Ochoa, City Manager
Audit Committee
City Council

Attachment

Financial Statement Ratio Analysis

	Angeles Contractors, Inc.		Kemp Bros Construction, Inc.	
	12/31/14	12/31/13	12/31/14	12/31/13
<p>Current Ratio</p> <p><i>Reflects the organization's ability to pay obligations in a timely manner. A ratio of less than one suggests that the company would be unable to pay off its obligations if they became due as of the balance sheet date.</i></p>	1.24	1.43	2.05	1.82
<p>Debt Ratio</p> <p><i>Reflects the proportion of debt a company has relative to its assets. The measure gives an idea as to the leverage of the company along with the potential risks the company faces in terms of its debt-load. A debt ratio of greater than one indicates that an organization has more debt than assets.</i></p>	0.81	0.71	0.47	0.53
<p>Defensive Interval</p> <p><i>Reflects the number of months that the organization could operate if no additional funds were received.</i></p>	4.47 months	3.63 months	6.76 months	5.39 months
<p>Retained Earnings to Total Assets</p> <p><i>Reflects the company's ability to accumulate earnings using its own assets. A high or increasing retained earnings to total assets ratio is usually a positive sign, showing the company is able to continually retain more earnings.</i></p>	0.01	0.01	0.35	0.38
<p>Solvency</p> <p><i>Reflects the company's ability to meet its debt and other obligations. A lower solvency ratio reflects a greater probability of default on debt obligations.</i></p>	0.02	0.04	0.02	0.04
<p>Working Capital to Total Assets</p> <p><i>Reflects a company's ability to cover short-term financial obligations and provides a means for identifying distress. A negative working capital likely indicates potential problems meeting short-term obligations.</i></p>	0.19	0.30	0.50	0.44
<p>Altman Z-Score</p> <p><i>Reflects a company's ability to meet its short-term and long-term obligations. A lower score reflects a greater probability of default on obligations. A score below 1.8 means the company is likely headed for bankruptcy, while companies with scores above 3.0 are less likely to go bankrupt.</i></p>	3.12	3.94	3.48	3.67