



# ***Affinity News***

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## **Greetings:**

The final days of Summer are a time of many transitions. As the days shorten, life takes on new rhythms. School is back in session. Groups that had suspended meetings for the Summer are getting reacquainted. And it wouldn't be the Affinity News if I didn't mention letting go of the wonders of backyard gardens.

The feature story in this issue was inspired by a report issued by the City of Milwaukee Comptroller. W. Martin Morics provides a good supply of material for thoughtful consideration. The insights to be drawn from the report apply to any organization.

As always, I hope things are well in your world and you are in a position to have a positive impact on those things you know are important.

## **Mission, Methods & Tools:**

The mission of Affinity By Design, LLC is to help organizations meet their goals by overcoming obstacles. The method for accomplishing this mission is the intentional bringing together of a community of people to pursue a common interest based upon mutual trust and understanding. The primary tools employed by Affinity By Design, LLC are founded in the disciplines of group facilitation, Systems Theory and project management.

## **Feature: An Accountant's View**

The Comparative Revenue and Expenditure Report W. Martin Morics, published in August is a perspective on governmental finance not often seen. Morics is the City of Milwaukee Comptroller. The report uses accounting data to illustrate how Milwaukee's revenue streams compare to similar cities across the country. The report also raises some questions regarding infrastructure support.

Larry Sandler highlighted the report in an August 23 article published on JS Online. Sandler focuses on the fact current rates of street/alley maintenance don't come close to keeping pace with normal wear-and-tear. According to Sandler's article the average neighborhood street won't be repaved or rebuilt for 163 years. Alleys will take an average of 272 years to be serviced. The useful life of a street is approximately 45-60 years, and alley lasts approximately 50-60 years.

The real value of the report is Morics's objective view. The report looks at both revenues and expenses and compares them to other cities. The report allows for a reality check against some of the political rhetoric we hear surrounding government funding and expenditures. One example is found in looking at per capita property taxes as a percent of total revenues. Property taxes in Milwaukee are 10% higher than comparable cities, as a percent of total revenues. Before jumping on a soap box it pays to look at the total revenues and expense lines of the report. Milwaukee is lower in per capita total revenues and expenses by 18.6% and 13.2% respectively. Very interesting, but not conclusive evidence of anything.

Another interesting bit of information available from the per capita revenue and expense report is the rate of change in total revenues and expenses. Total revenues for the four years in the report have risen at an annualized rate of 1.7%. Total expenditures for the same period have risen at an annualized rate of 3.5%. Any time expenses are rising at a faster rate than revenues, it's hard to push the argument revenues are too high.

<http://www.jsonline.com/story/index.aspx?id=651608>

## **Lessons Learned:**

Accounting data is designed to tell its own story. Placing the label "too high" or "too low" on a piece of financial data is always opinion unless there is a contextual reference point. Revenues can be too high under certain circumstances, but only when all expenses are paid and maintenance is up-to-

date. On the other hand, revenues are always too low when the bills aren't getting paid.

Deferred expenses represent a growing debt owed by the organization. From the report and article, City of Milwaukee street and alley maintenance is falling behind at a rate of approximately \$16 million per year. Since deferred expenses often don't appear on financial statements, it is important to make sure they are addressed by the organization.

Trends tell a story. All things being equal, we'd expect revenues and expenses to move, generally, in the same direction. When they don't, it is worthwhile to ask some questions. In the City of Milwaukee information we see expenses rising faster than revenues. When we combine this trend with the deferred street/alley maintenance, it is easy to anticipate a problem in the future.

### **Applying The Lessons:**

Learn how to read your organization's financial statements. Any accountant worth their pay would rather you understand the financial documents they provide. It never hurts to let the person providing a financial report know of specific questions in writing. There are also many sources of information available for self study. The following link provides a basic guide.

<http://www.sec.gov/investor/pubs/begfinstmtguide.htm>

Look at how things have changed over time: Looking at the same financial figures from the previous year or a series of periods creates all sorts of opportunities for questions. This is especially important in assessing the effectiveness of prior decisions. "Remember when we made the big change that was going to save all that money? Well, what happened?"

Ask about things not on the financial statements: There are all sorts of things that will impact the organization in the future, but may not be on the financial statements today. "How long do we expect the boiler to last? When the lease on the copiers runs out, what do we expect to spend on a new contract? If our biggest client went somewhere else, what impact would it have on revenues and expenses?"

### **Add your comments:**

The story above has been published on the Affinity By Design blog. You can become a part of the story by going to: < <http://affinitybd.blogspot.com/>>. You'll also find web-only content there.

### **How Affinity By Design, LLC can help:**

Is it time to do some analysis of what's effective and what's not? This would be a great time to look at how your organization can bring its best to the table. You might be surprised at what you'd find. You'll also be surprised at how Affinity By Design, LLC can help.

Dan Lococo brings many years of experience in business process analysis, finance management, and group facilitation to Affinity By Design, LLC.

There are a number of ways your organization can take advantage of these skills and experience as it becomes more effective in the delivery of its mission.

- ✓ Group presentations: As an experienced public speaker, Dan Lococo can address your organization or professional association.
- ✓ Structured brainstorming: A facilitated brainstorming session can help your organization reach a consensus on how to measure what is most important.
- ✓ Model building: A business model can quickly and effectively communicate important information. The integration of analysis tools and graphics allows for the communication of sophisticated information with a minimum of data collection.
- ✓ General consulting: Affinity By Design, LLC can provide a customized combination of facilitation, analysis and consultation to meet the special needs of your organization. General consulting engagements are based upon a mutually agreed upon project charter.

### **Why You Received This Message:**

You have received this newsletter because I have had either direct, or indirect, contact with you regarding the work of Affinity By Design, LLC. If you do not want to receive this newsletter, please let me know via e-mail. Include the words "Take me off your list" either in the subject or body of the message.

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