

Memorandum



CITY OF DALLAS

DATE April 12, 2018

Honorable Members of the Government Performance & Financial Management
Committee: Jennifer S. Gates (Chair), Scott Griggs (Vice Chair), Sandy Greyson,
TO Lee M. Kleinman, Philip T. Kingston, Tennell Atkins, Kevin Felder

SUBJECT **Communications Related to the FY 2017 Audit**

On Monday, April 16, 2018, Grant Thornton will brief the Government Performance & Financial Management Committee on Communications Related to the FY 2017 Audit. I have attached the briefing for your review.

Please let me know if you need additional information.

A handwritten signature in blue ink that reads "M. Elizabeth Reich".

M. Elizabeth Reich
Chief Financial Officer

Attachment

c: Honorable Mayor and Members of the City Council
T.C. Broadnax, City Manager
Larry Casto, City Attorney
Craig D. Kinton, City Auditor
Billerae Johnson, City Secretary (Interim)
Daniel F. Solis, Administrative Judge
Kimberly Bizer Tolbert, Chief of Staff to the City Manager
Majed A. Al-Ghafry, Assistant City Manager

Jon Fortune, Assistant City Manager
Joey Zapata, Assistant City Manager
Jo M. (Jody) Puckett, Assistant City Manager (Interim)
Nadia Chandler Hardy, Chief of Community Services
Raquel Favela, Chief of Economic Development & Neighborhood Services
Theresa O'Donnell, Chief of Resilience
Directors and Assistant Directors



2017 Presentation to the Government Performance and Financial Management Committee of the City of Dallas

Communications Related to the FY 2017 Audit
April 16, 2018



Significant Risks and Areas of Audit Focus

The following provides an overview of the areas of significant audit focus based on our risk assessments.

Areas of focus	Results
Water and Sewer Revenues and Receivables	<ul style="list-style-type: none">- Tested existence and accuracy of receivables at 9/30 year-end by reviewing customer activity, invoices, and subsequent payment.- Tested revenues by recalculating water and sewer charges using readings and rates per City Ordinance. <p>Results: No exceptions noted.</p>
Airport Revenues and Receivables	<ul style="list-style-type: none">- Tested existence and accuracy of receivables at 9/30 year-end by reviewing invoice, examined evidence that services were provided, and verifying subsequent payment was received.- Tested revenues by reviewing invoice, examined evidence that services were provided, and verifying payment was received. <p>Results: No exceptions noted.</p>
Grant Revenues and Receivables	<ul style="list-style-type: none">- Tested existence and accuracy of receivables at 9/30 year-end by reviewing applicable agreement, ensuring eligibility requirements, verifying payments from awarding party.- Tested revenues by reviewing applicable agreement, ensuring eligibility requirements, verifying payments from awarding party.- Reconciled amounts reported as grant revenues to the SEFA/SESA. <p>Results: No exceptions noted.</p>

Significant Risks and Areas of Audit Focus (continued)

The following provides an overview of the areas of significant audit focus based on our risk assessments.

Areas of focus	Results
Other Revenues and Receivables	<ul style="list-style-type: none"> - Tested existence and accuracy of receivables at 9/30 year-end by reviewing invoice, examined evidence that services were provided, and verifying subsequent payment was received. - Tested revenues by reviewing invoice, examined evidence that services were provided, and verifying payment was received. <p>Results: No exceptions noted.</p>
Net pension liability and expense, actuarial information related to self-insurance (IBNR), workers compensation liabilities and OPEB Plans	<ul style="list-style-type: none"> - Reviewed assumptions in the actuarial report for reasonableness. Agreed and tested the active census population data to the GRS valuation report as of 12/31/16. Verified Net Pension Liability disclosures (GASB 68) were appropriate. - Reviewed the actuarial report or third party calculations related to worker's compensation, self-funded group health insurance, life insurance and general liability insurance. Reviewed the work of specialist used by the City to calculate the financial amounts. - Reviewed assumptions in the actuarial report for reasonableness. Agreed and tested the active census population data to the Holmes Murphy valuation report as of 9/30/17. Verified OPEB disclosures were appropriate. <p>Results: No exceptions noted.</p>
Compliance and controls related to federal and state single audit major programs	<ul style="list-style-type: none"> - Tested compliance and the effectiveness of internal controls over compliance in accordance with Uniform Guidance and the State of Texas Single Audit Circular. <p>Results: See Single Audit slide</p>

Significant Risks and Areas of Audit Focus (continued)

The following provides an overview of the areas of significant audit focus based on our risk assessments.

Areas of focus	Results
Controls- based approach	Payroll
Controls- based approach	Disbursements

Other Areas:

- Governance
- Fraud inquiries
- Information technology
- Adequacy of disclosures
- Investments/Treasury
- Debt, including compliance and ratios
- Tax Revenues
- Allowance for doubtful accounts
- Capital Assets
- Investments
- Revenue and GO bond issuances
- Employee Compensation
- Operating Expenditures
- Landfill closure and post-closure
- Passenger Facility Charge compliance
- Dallas Convention Center Hotel Development Corporation
- Love Field Airport Modernization Corporation and related transactions

Federal and State Major Programs

Federal Programs Audited	State Programs Audited
HOME Investment Partnership Program	Homeless Housing and Service Program
Housing Opportunities for Persons with AIDS	Confiscated Monies
Continuum of Care Program	TPWD Urban Outdoor – Dallas Bachman Lake Park Grant
Community Development Block Grants (CDBG) Loan Program	
Homeland Security Grant Program	

Single Audit - Current Year Draft Findings

Source	Program	Award #	Finding	Severity	Status
Federal	Continuum of Care	TX0072L6T001508	Special Test: Reasonable Rental Rates - We noted one (1) of sixty (60) participant files reviewed were missing properly completed Rent Reasonableness Determination form documenting that the City performed the reasonable rental rates analysis, the Tenant Rent Calculation Worksheet used to support the calculation and determination of monthly rent amounts to be paid on the participant's behalf, the Payment Request Worksheet, and the Lease Agreement.	Noncompliance	Repeat finding (2017-002)
Federal	Continuum of Care	TX0072L6T001508 TX0050L6T001508	Special Test: Housing Quality Standards - We noted three (3) of sixty (60) participant files reviewed were missing properly completed Housing Quality Inspection Report documenting that the City performed the housing quality inspection and that the unit meet housing quality standards.	Noncompliance	New finding (2017-003)
Federal	Continuum of Care	TX0072L6T001508	Eligibility - We noted one (1) of sixty (60) participant files reviewed were missing properly completed Gross Household Income Certification Worksheet, the Declaration of No Income form, and the Tenant Rent Calculation Worksheet used to support the calculation and determination of monthly rent amounts to be paid on the participant's behalf.	Noncompliance	New finding (2017-004)

Single Audit - Current Year Draft Findings, continued

Source	Program	Award #	Finding	Severity	Status
Federal	Continuum of Care	TX0072L6T001508 TX0050L6T001508	Eligibility, Special Test: Housing Quality Standards, and Special Test: Reasonable Rental Rates - Based on testing performed, we noted that there was a lack of sufficient review of participant files to ensure the accuracy and completeness of participant files, including the review of information included in the files to support the provision of services.	Material Weakness	Repeat finding (2017-001)
Federal	Housing Opportunities for Persons with AIDS (HOPWA)	TXH16-F001	Special Test: Community Residences - For the three (3) community residences grants awarded for FY16-17, there were no Community Residence Certifications attached as part of the contracts.	Significant deficiency and Non-Compliance	New Finding (2017-005)
State	TPWD Urban Outdoor-Dallas Bachman Lake Park Grant	55-000026	Cash Management - For one (1) of the one reimbursement request submitted and tested, there was no evidence of supervisory review or review from someone other than the preparer.	Significant deficiency	New Finding (2017-006)

Single Audits – Status of Prior Year Findings

Source	Program	Award #	Finding	Severity	Status
Federal	Continuum of Care	TX0236L6T001406 TX0072L6T001407 TX0050L6T001407	Special Test: Reasonable Rental Rates - based on testing performed, we noted four (4) of sixty (60) participant files reviewed were missing properly completed Rent Reasonableness Determination form documenting that the City performed the reasonable rental rates analysis, and the Tenant Rent Calculation Worksheet used to support the calculation and determination of monthly rent amount amounts to be paid on the participant's behalf.	Noncompliance	Repeat finding (2016-002, 2015-002)
Federal	Continuum of Care	TX0236L6T001406 TX0072L6T001407 TX0050L6T001407	Eligibility, Special Test: Housing Quality Standards, and Special Test: Reasonable Rental Rates - based on testing performed, we noted that there was a lack of sufficient review of participant files to ensure the accuracy and completeness of participant files, including the review of information included in the files to support the provision of services.	Material Weakness	Repeat finding (2016-001, 2015-001)
State	Commercial Auto Theft Interdiction Squad (CATIS)	608-16-DPD0000	Cash management – during our testing, we noted that as part of its August 31, 2016 Quarterly Expenditure Report, the City of Dallas' Police Department (DPD) Grants Management requested reimbursement of \$15,555 for body armor/vests which were not received or paid for until November 2016 and December 2016, respectively.	Control deficiency and noncompliance	Remediated (State 2016-001)

Scope of IT Control Testing

- The scope of the IT Controls Testing included the following IT governance areas:
 - Security Administration
 - Change Management
 - Batch Job Administration
- The following applications were included in our review:
 - SAP (and underlying databases)
 - Advantage Financial System (and underlying databases)
 - Active Directory
- Six IT control observations were identified during this year's IT testing
 - End users with security administration access in SAP
 - End users with privileged access to batch administration in SAP
 - Inappropriate access to promote application changes in SAP
 - Timely revocation of SAP access for terminated employees
 - Changes to SAP were not being formally tested and approved prior to implementation.
 - User accounts and associated permissions within SAP were not being formally, proactively reviewed for appropriateness

Reports Issued

- Financial statement audits:
 - Comprehensive annual financial report (CAFR)
 - Single Audits
 - Federal (Uniform Grants Guidance)- to be issued
 - State (State of Texas Single Audit Circular) - to be issued
- Separate reports:
 - Airport Revenues Fund and Passenger Facility Charge compliance- to be issued
 - Dallas Convention Center Hotel Development Corporation- to be issued
 - Dallas Water Utilities- to be issued
 - Downtown Dallas Development Authority Tax Increment Financing District
 - Texas Commission on Environment Quality financial assurance agreed-upon procedures

Results of Financial Statement Audits

- Comprehensive Annual Financial Report (CAFR) :
 - Unmodified "clean" opinions
 - Includes GFOA Certificate of Achievement for 2016 CAFR. The City has received this award for eleven years in a row.
 - No scope limitations
 - Continued open and effective communication with management
- Federal Single Audit Report:
 - Pending completion
- State Single Audit Report:
 - Pending completion

Summary of Misstatements (\$000s)

There were no adjusting journal entries recorded or passed as a result of the financial statement audits.

Other Required Communications

Professional standards require that we communicate the following matters to you, as applicable.

Going concern matters
Fraud and noncompliance with laws and regulations
Significant deficiencies and material weaknesses in internal control over financial reporting
Use of other auditors
Use of internal audit
Related parties and related party transactions



Other Required Communications

(continued)

Disagreements with management
Management's consultations with other accountants
Significant issues discussed with management
Significant difficulties encountered during the audit
Other significant findings or issues that are relevant to you and your oversight responsibilities
Modifications to the auditor's report
Other information in documents containing audited financial statements



Quality of Accounting Practices

Accounting policies	Accounting policies used are considered appropriate in all material respects.
Accounting estimates	<ul style="list-style-type: none">• Depreciation of capital assets;• Allowance for receivables;• Accruals for self-insurance liabilities, including Incurred But Not Reported (IBNR) Claims;• Arbitrage rebate liability;• Net Pension and OPEB Assets, Liabilities and related disclosures; and• Landfill closure and post-closure <p>We performed test to satisfy ourselves that these amounts are materially correct.</p>
Disclosures	<ul style="list-style-type: none">• We have assessed the financial statements and disclosures for clarity and completeness.• Footnote disclosures in the financial statements appear overall to be neutral, consistent, and clear.

Internal Controls Matters

Responsibility We are responsible for obtaining reasonable assurance about whether the financial statements are free of material misstatement. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. Control deficiencies that are of a lesser magnitude than a significant deficiency will be communicated to management.

Definitions

- A deficiency in internal control ("control deficiency") exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect, misstatements on a timely basis.
- A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the city's annual or interim financial statements will not be prevented or detected on a timely basis.

Use of the Work of Others

Other Auditors

Hopkins & Associates

Logan & Associates

Owen & Thurman, P.C.

Serna & Company, P.C.

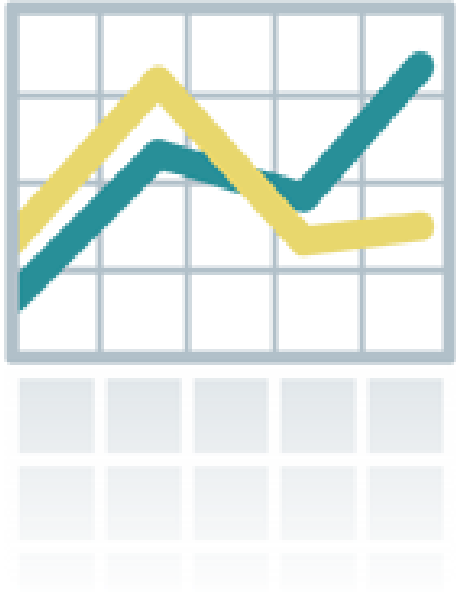
Specialists

GT IT/Advisory - review of information technology environment

GT Valuation - valuation of investments

GT Actuary - review assumptions and method's used by the City's actuary in determining pension, postretirement benefit liabilities, and self-insurance

Financial Trends



Financial Highlights – Summary (In Millions)

<u>Government-Wide:</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<u>Governmental:</u>					
Change in net position (deficit)	\$ (494)	\$ (742)	\$ 256	\$ 81	\$ 83
Total net position	(3,847)	(3,353)	(2,679)	2,245	2,163
Ending unrestricted net position (deficit)	(6,773)	(6,164)	(5,393)	(306)	(294)
Capital assets, net	3,917	3,829	3,735	3,596	3,413
<u>Business-type:</u>					
Change in net position (deficit)	\$ 111	\$ (4)	\$ 93	\$ 114	\$ 119
Total net position	3,319	3,208	3,280	3,357	3,243
Ending unrestricted net position (deficit)	(50)	1,946	239	363	293
Capital assets, net	6,680	6,468	6,057	5,808	5,592
<u>Governmental:</u>					
<u>Tax Rate (per \$100 valuation)</u>					
Total	\$ 0.7825	\$ 0.7970	\$ 0.7970	\$ 0.7970	\$ 0.7970
General Fund	\$ 0.5601	0.5646	0.5646	0.5601	0.5439
Debt Service	\$ 0.2224	0.2324	0.2324	0.2369	0.2531
Taxable Assessed Valuation (in billions)	\$ 110.4	\$ 100.3	\$ 93.1	\$ 87.3	\$ 83.7
Total General Obligation Bonds	\$ 1,354.9	\$ 1,485.0	\$ 1,406.0	\$ 1,235.8	\$ 1,429.0
Debt Service expenditures as a percentage of non-capital expenditures	16.2%	16.6%	16.3%	15.1%	15.9%
<u>General Fund Balance:</u>					
Total	\$ 235.2	\$ 191.0	\$ 200.1	\$ 180.7	\$ 157.0
Unreserved/Unassigned	\$ 171.7	\$ 153.7	\$ 141.6	\$ 129.2	\$ 120.8
General Fund Expenditures	\$ 1,160.0	\$ 1,122.7	\$ 1,138.8	\$ 1,091.9	\$ 1,022.5
Unreserved/Unassigned General Fund balance as a percentage of expenditures	14.80%	13.70%	12.40%	11.84%	11.81%
Excess (deficiency) of revenues over (under) expenditures	\$ 32.8	\$ (1.6)	\$ 11.4	\$ 3.6	\$ 0.5
Transfers in (out) of General Fund, net	\$ 11.3	\$ 6.2	\$ 7.5	\$ 16.1	\$ 2.3

Financial Highlights – Summary (continued)

<u>Business-Type:</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Income (loss) before transfers and contributions:					
Dallas Water Utilities	\$ 111.5	\$ 24.9	\$ 77.7	\$ 137.3	\$ 115.8
Convention Center*	5.7	4.8	6.9	-	(7.3)
Airport Revenue	(8.1)	(11.0)	7.3	(6.5)	(5.3)
Sanitation**	3.6	(13.6)	N/A	N/A	N/A
Total Capital Assets, net					
Dallas Water Utilities	\$ 5,034	\$ 4,889	\$ 4,601	\$ 4,391	\$ 4,211
Convention Center*	464	479	495	508	511
Airport Revenue	1,136	1,059	960	907	868
Sanitation**	44	39	N/A	N/A	N/A
Ending net position:					
Dallas Water Utilities	\$ 2,592	\$ 2,469	\$ 2,450	\$ 2,512	\$ 2,393
Convention Center*	262	265	266	267	276
Airport Revenue	569	568	558	552	553
Sanitation**	(88)	(85)	N/A	N/A	N/A
Revenue Bond Coverage:					
Dallas Water Utilities (minimum requirement 1.25)	1.85	1.74	1.54	1.81	1.85
Convention Center*	1.7	1.8	2	1.7	1.7
Airport Revenue	N/A	N/A	N/A	N/A	N/A
Sanitation**	N/A	N/A	N/A	N/A	N/A
Internal Service Fund Balance (deficit):					
Risk Funds fund deficit	\$ (112.0)	\$ (64.2)	\$ (51.5)	\$ (42.0)	\$ (52.2)
Risk Funds claims total liability	137.4	79.4	68.7	66.2	70.1
Risk Funds fund deficit as a % of total general fund balance	47.62%	33.59%	25.74%	23.24%	33.25%
Net Other Post Employment Benefit "OPEB" obligation	\$ 264.2	\$ 252.2	\$ 241.5	\$ 229.5	\$ 207.5
Landfill closure and post-closure liability	\$ 40.2	\$ 30.9	\$ 30.3	\$ 34.6	\$ 33.2

*The operations of the Convention Center include the Kay Bailey Hutchison Convention Center, American Airlines Center, Union Station, the City Fountain, and Office of Special Events

**The Sanitation fund was presented as a major fund for the first time during FY 2016. As such, other prior year balances are not available.

Financial Highlights – Government-Wide (In Millions)

Definitions:

- "Change in net position (deficit)": essentially "net income (loss)"
- "Total net position (deficit)": the excess (deficit) of assets vs. liabilities
- "Unrestricted net position": "remaining" net position after deducting "net investment in capital assets" and "restricted" components
- "Capital Assets, net": long-term capital assets, net of accumulated depreciation

Financial Trends

<u>Government-Wide:</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Governmental:					
Change in net position (deficit)	\$ (494)	\$ (742)	\$ 256	\$ 81	\$ 83
Total net position	(3,847)	(3,353)	(2,679)	2,245	2,163
Ending unrestricted net position (deficit) (1)	(6,773)	(6,164)	(5,393)	(306)	(294)
Capital assets, net (3)	3,917	3,829	3,735	3,596	3,413
Business-type:					
Change in net position	\$ 111	\$ (4)	\$ 93	\$ 114	\$ 119
Total net position	3,319	3,208	3,280	3,357	3,243
Ending unrestricted net position (2)	(50)	1,946	239	363	293
Capital assets, net (3)	6,680	6,468	6,057	5,808	5,592

Key Observations:

- (1) The "Governmental" unrestricted net (deficit) position increased annually from 2013-2017
- (2) The "Business-type" unrestricted net position increased from 2013 to 2014, decreased in 2015, increased in 2016, and decreased in 2017
- (3) "Capital Assets, net" balances (both "Governmental" and "Business-type") have increased annually from 2013-2017

Financial Highlights – Governmental Tax Rate, Assessed Value and Debt (In Millions)

Definitions:

- The "Tax Rate" is the City's tax rate in total (per \$100 of valuation) with components for general fund or debt service shown separately
- "Taxable Assessed Valuation" is the total value of the City's tax base upon which the tax rate is levied
- Total "General Obligation Debt" is debt backed by the full faith and credit of the City

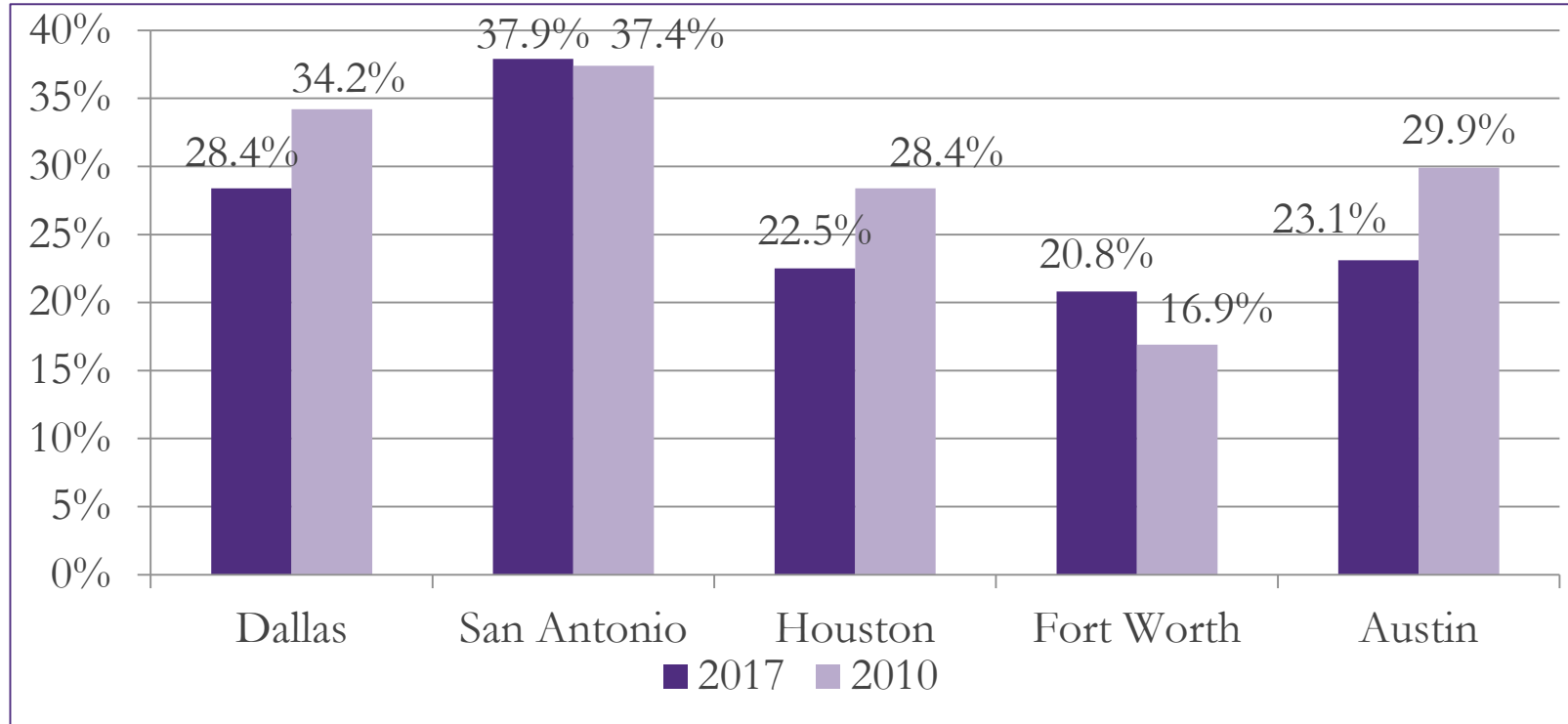
Financial Trends:

<u>Governmental:</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Tax Rate (per \$100 valuation)					
Total (1)	\$ 0.7825	\$ 0.7970	\$ 0.7970	\$ 0.7970	\$ 0.7970
General Fund	0.5601	0.5646	0.5646	0.5601	0.5439
Debt Service (2)	0.2224	0.2324	0.2324	0.2369	0.2531
Taxable Assessed Valuation (in billions) (3)	\$ 110.4	\$ 100.3	\$ 93.1	\$ 87.3	\$ 83.7
Total General Obligation Debt (4)	\$ 1,355	\$ 1,492	\$ 1,559	\$ 1,236	\$ 1,353
Debt Service expenditures as a percentage of non-capital expenditures (5)	16.20%	16.60%	16.34%	15.10%	15.88%

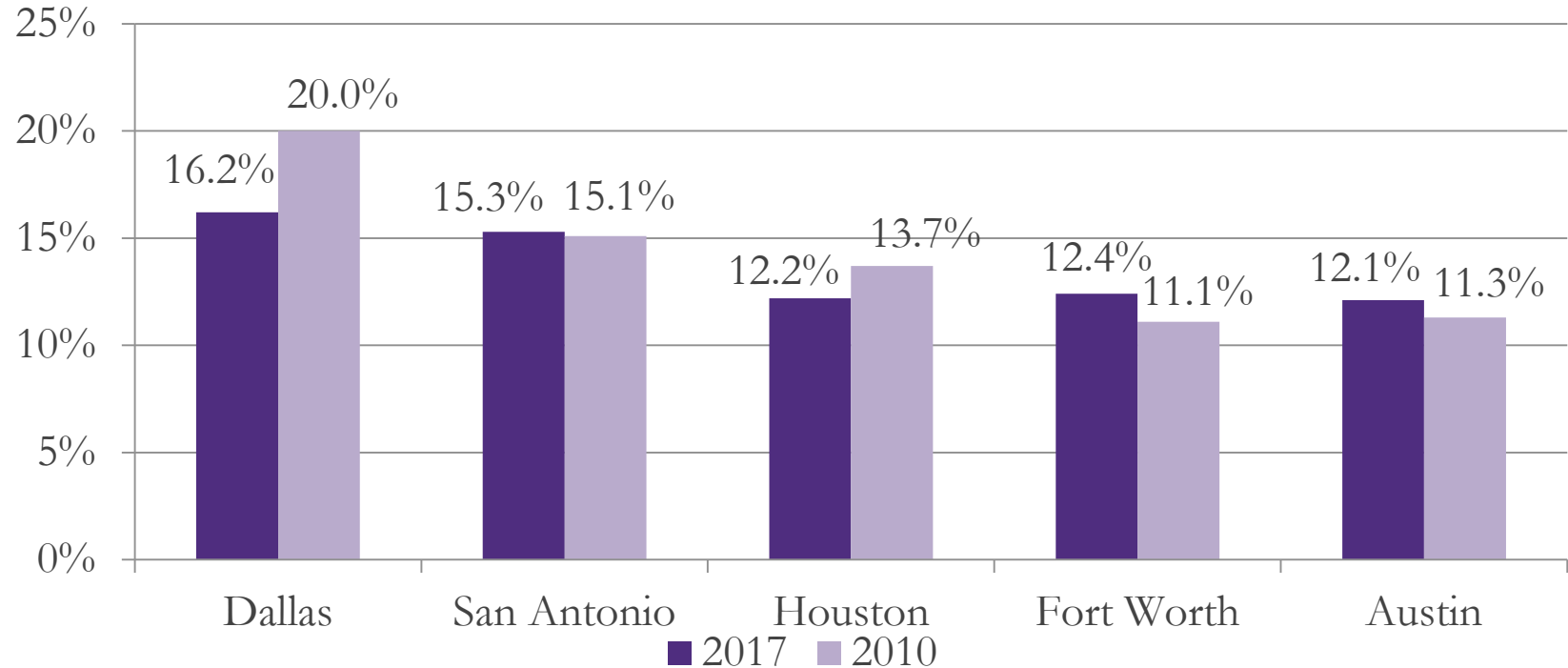
Key Observations:

- (1) The total tax rate remained unchanged from 2013-2016. Total tax rate changed in 2017.
- (2) The tax rate component for debt service decreased annually from 2013-2015, stayed flat in 2016, and decrease in 2017.
- (3) The taxable assessed valuation increased annually from 2013-2017
- (4) Total General Obligation debt decreased in 2014, increased in 2015, and decreased in 2016 and 2017.
- (5) Debt service expenditures as a % of non-capital expenditures decreased from 2013-2014, increased in 2015 and 2016, and decreased in 2017.

Debt Service Component of Tax Rate as a Percentage of Total Rate



Debt Service Expenditures as a Percentage of Non-Capital Expenditures



Financial Highlights – General Fund (In Millions)

Definitions:

- The General fund essentially accounts for all activities that are not required to be accounted for elsewhere
- Transfers in (out) of general fund, net reflects all transfers from (to) other funds of the City, net

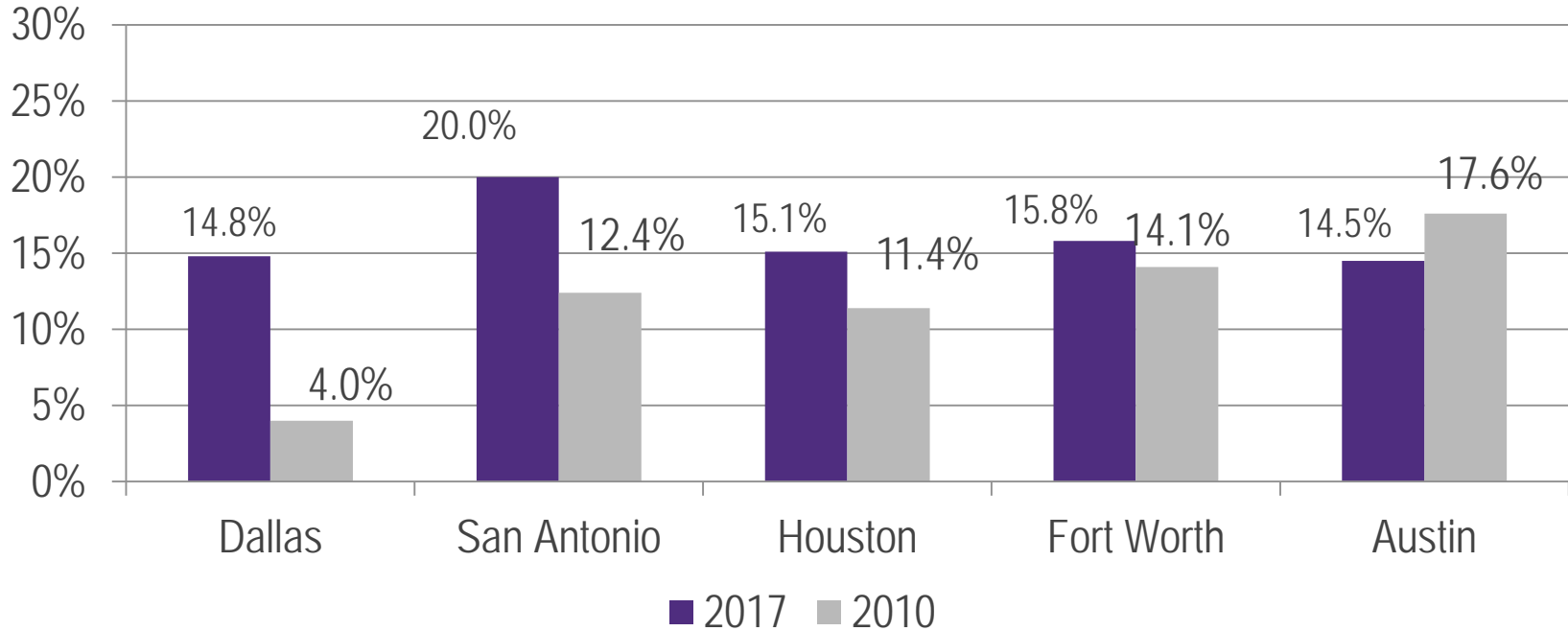
Financial Trends:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
General Fund Balance: (1)					
Total	\$ 235.2	\$ 191.0	\$ 200.1	\$ 180.7	\$ 157.0
Unreserved/Unassigned	\$ 171.7	\$ 153.7	\$ 141.6	\$ 129.2	\$ 120.8
General Fund Expenditures (2)	\$ 1,160.0	\$ 1,122.7	\$ 1,138.8	\$ 1,091.9	\$ 1,022.5
Unreserved/Unassigned General Fund balance as a percentage of expenditures (1)	14.80%	13.70%	12.40%	11.84%	11.81%
Excess (deficiency) of revenues over (under) expenditures (3)	\$ 32.8	\$ (1.6)	\$ 11.4	\$ 3.6	\$ 0.5
Transfers in (out) of General Fund, net (4)	\$ 11.3	\$ 6.2	\$ 7.5	\$ 16.1	\$ 2.3

Key Observations:

- (1) The Total General Fund Balance increased annually from 2013- 2015, decreased in 2016, and increased in 2017. The Unreserved/Unassigned General Fund Balance increased annually from 2013 to 2017. The "unreserved/unassigned general fund balance as a percentage of expenditures" increased annually from 2013 to 2017.
- (2) General Fund expenditures have remained relatively consistent from 2013-2017.
- (3) Revenues have been in excess of expenditures from 2013-2017, except in 2016
- (4) Transfers have been transfers-in from 2013 through 2017.

Unassigned/Unreserved General Fund Balance as a Percentage of General Fund Expenditures



Financial Highlights – Business-Type "Enterprise" Activities (In Millions)

Definitions:

- Income (loss) before transfers and contributions is essentially "operating income (loss)"
- Revenue bond coverage is "net revenues, as defined" divided by total debt service expenditures

Financial Trends:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Income (loss) before transfers and contributions:					
Dallas Water Utilities (4)	\$ 111.5	\$ 24.9	\$ 77.0	\$ 137.3	\$ 115.8
Convention Center*	5.7	4.8	6.9	-	(7.3)
Airport Revenue	(8.1)	(11.0)	7.3	(6.5)	(5.3)
Sanitation	3.6	(13.6)	N/A	N/A	N/A
Total Capital Assets, net (1)					
Dallas Water Utilities	5,034	4,889	\$ 4,601	\$ 4,391	\$ 4,211
Convention Center*	464	479	495	508	511
Airport Revenue	1,136	1,059	960	907	868
Sanitation	44	39	N/A	N/A	N/A
Revenue Bond Coverage:					
Dallas Water Utilities (2)	1.85	1.74	1.54	1.81	1.85
Convention Center* (3)	1.7	1.8	2.0	1.7	1.7
Airport Revenue	N/A	N/A	N/A	N/A	N/A
Sanitation	N/A	N/A	N/A	N/A	N/A

Key Observations:

- (1) Total Capital Assets, net increased annually between 2013-2017.
- (2) Revenue Bond Coverage for Dallas Water Utilities remained relatively consistent from 2013 to 2017.
- (3) Revenue Bond Coverage for Convention Center has remained consistent from 2013-2017.
- (4) Dallas Water Utilities net income decreased from 2014-2016 and increase in 2017.

*The operations of the Convention Center include the Kay Bailey Hutchison Convention Center, American Airlines Center, Union Station, the City Fountain, and Office of Special Events,

**The Sanitation fund was presented as a major fund for the first time during FY 2016. As such, other prior year balances are not available.

Financial Highlights – Risk Funds, OPEB (Other Postemployment Benefits), Pension and Landfill Obligations (In Millions)

Definitions:

- The Risk funds account for the City's self-insured health, worker's compensation and general liability programs
- The net OPEB obligation is the actuarially-determined liability for benefits to be provided to retired employees
- The landfill closure and post-closure liability is estimated based upon percentage utilized

Financial Trends:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Internal Service Fund Balance (deficit): (1)					
Risk Funds fund deficit	\$ (112.0)	\$ (64.2)	\$ (51.5)	\$ (42.0)	\$ (52.2)
Risk Funds claims total liability	137.4	79.4	68.7	66.2	70.1
Risk Funds fund deficit as a % of total general fund balance (2)	47.62%	33.59%	25.74%	23.24%	33.25%
Net Other Post Employment Benefit "OPEB" obligation (3)	\$ 264.2	\$ 252.2	\$ 241.5	\$ 229.5	\$ 207.5
Landfill closure and post-closure liability (4)	\$ 40.2	\$ 30.9	\$ 30.6	\$ 34.6	\$ 33.2
Net Pension Liability (5)	\$ 7,262	\$ 9,050	\$ 5,600	\$ 5,090	

Key Observations:

- (1) The City's self-insured risk activities are essentially being funded on a "pay-as-you-go" basis.
- (2) The Risk Funds fund deficit as a % of total general fund balance decreased from 2013-2014, and increase from 2015-2017.
- (3) The net OPEB obligation has increased annually from 2013-2017, after accounting rules changed to require governments to reflect the liability beginning in 2008.
- (4) The City's unfunded landfill closure and post-closure liability increased slightly in 2014, decreased in 2015 and has increased during 2016 and 2017.
- (5) New accounting rules, GASB Statement Number 68, required the City to accrue a liability on its financial statements for its unfunded pension benefit obligation. Implementation of GASB 68 was adopted during the fiscal year ending September 30, 2015

Commitment to Promote Ethical and Professional Excellence

We are committed to promoting ethical and professional excellence. To advance this commitment, we have put in place a phone and internet-based hotline system.

The Ethics Hotline (1.866.739.4134) provides individuals a means to call and report ethical concerns.

The EthicsPoint URL link can be accessed from our external website or through this link:

https://secure.ethicspoint.com/domain/en/report_custom.asp?clientid=15191

Disclaimer: EthicsPoint is not intended to act as a substitute for a company's "whistleblower" obligations.



Audit Wrap Up Presentation

Accounting Updates



Selected pronouncements effective for the year ending September 30, 2017:

Pronouncement	Effective Date
Effective for FY17:	
<p><u>GASB 73 - Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provision of GASB Statements 67 and 68</u></p> <p>This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contributions pensions that are not within the scope of GASB 68. It also amends certain provisions of GASB 67 and GASB 68 for pension plans and pensions that are within their respective scopes.</p>	Fiscal Year 2017
<p><u>GASB 74 – Financial Reporting for Postemployment Benefit Plans Other Than Pensions Plans</u></p> <p>This Statement replaces GASB 43, as amended, and GASB 57. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in GASB 25, as amended, GASB 43, and GASB 50.</p>	Fiscal Year 2017
<p><u>GASB 77 – Tax Abatement Disclosures</u></p> <p>This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements: Brief descriptive information, such as the tax being abated, the authority under which tax abatement are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients; The gross dollar amount of taxes abated during the period; and Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.</p>	Fiscal Year 2017

Selected pronouncements effective for the year ending September 30, 2017:

Pronouncement	Effective Date
<p>Effective for FY17:</p> <p><u>GASB 78 – Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans</u> This Statement amends the scope and applicability of GASB 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local government employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan).</p>	Fiscal Year 2017
<p><u>GASB 80 – Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14</u> This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporate as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB 39.</p>	Fiscal Year 2017
<p><u>GASB 82 – Pension Issues</u> This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.</p>	Fiscal Year 2017

Selected pronouncements effective for the year ending September 30, 2018:

Pronouncement	Effective Date
<p>Effective for FY18:</p> <p><u>GASB 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions</u> The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB).</p> <p>This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans.</p>	<p>Fiscal years beginning after June 15, 2017</p>
<p><u>GASB 86 – Certain Debt Extinguishment Issues</u> Provides guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. Governments that defease debt using only existing resources should provide a general description of the transaction in the notes to financial statements in the period of the defeasance. In all periods following an in-substance defeasance of debt using only existing resources, the amount of that debt that remains outstanding at period-end should be disclosed.</p>	<p>Fiscal years beginning after June 15, 2017</p>

Selected pronouncements effective for the year ending September 30, 2018:

Pronouncement	Effective Date
<p>Effective for FY18:</p> <p><u>GASB 85 – Omnibus 2017</u></p> <p>This statement address a variety of topics including issues related to:</p> <ul style="list-style-type: none">- Blending component units: for a primary government that is a business-type activity and uses a single column for financial statement presentation, a component unit may be blended only if the component unit meets a criterion for blending in paragraph 53 of Stmt 14.- Fair value measurement and application: Real estate held by insurance entities should be classified either as an investment or a capital asset. The money market investments and participating interest-earning investment contracts described in paragraph 69c of Statement 72 may be measured at amortized cost to the extent permitted by paragraph 9 of Statement 31.- OPEB: In FS prepared using the current financial resources measurement focus, liabilities to employees for defined benefit pensions of OPEB should be measured as of the end of the reporting period. Update to the measurement of on-behalf payments. "Measure of payroll" required by paragraph 36 of Statement 74 should be covered payroll. Employer-paid member contributions should be classified as plan member contributions. Modifications to the alternative measurement method. Modifications for multiple-employer defined benefit OPEB plans.	<p>Fiscal years beginning after June 15, 2017</p>

Selected pronouncements effective for the year ending September 30, 2019 or 2020:

Pronouncement	Effective Date
<p>Effective for FY19 or FY20:</p> <p><u>GASB 83 – Certain Asset Retirement Obligations</u> This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities</p> <p><u>GASB 84 – Fiduciary Activities</u> This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.</p> <p>This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.</p>	<p>Fiscal years beginning after June 15, 2018</p> <p>Fiscal years beginning after December 15, 2018</p>

Selected pronouncements effective for the year ending September 30, 2020:

Pronouncement	Effective Date
<p>Effective for FY20:</p> <p><u>GASB 87 – Leases:</u> The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.</p>	<p>Fiscal years beginning after December 15, 2019</p>

This communication is intended solely for the information and use of management and the Government Performance and Financial Management Committee of the City of Dallas and is not intended to be and should not be used by anyone other than these specified parties.

