Memorandum

CITY OF DALLAS

DATE June 12, 2015

TO Members of the Budget, Finance & Audit Committee: Jerry R. Allen (Chair), Jennifer S. Gates (Vice Chair), Tennell Atkins, Sheffie Kadane, Philip T. Kingston

SUBJECT Communications Related to the FY 2014 Audit

On June 15, 2015 the Budget, Finance and Audit Committee will be briefed on Communications Related to the FY 2014 Audit. The briefing will be presented by Ben Kohnle, Partner at Grant Thornton LLP. The briefing is attached for your review.

Please let me know if you need additional information.

Jeanne Chipperfield

Jeanne Chipperfield
Chief Financial Officer

c: Honorable Mayor and Members of City Council
A.C. Gonzalez, City Manager
Warren M.S. Ernst, City Attorney
Craig D. Kinton, City Auditor
Rosa A. Rios, City Secretary
Daniel F. Solis, Administrative Judge
Ryan S. Evans, First Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Joey Zapata, Assistant City Manager
Mark McDaniel, Assistant City Manager
Eric D. Campbell, Assistant City Manager
Sana Syed, Public Information Officer
Mark Duebner, Director, Aviation
Elsa Cantu, Assistant to the City Manager

Grant Thornton

Presentation to the Budget, Finance and Audit Committee of The City of Dallas

Communications Related to the FY 2014 Audit

June 15, 2015

Attendees:

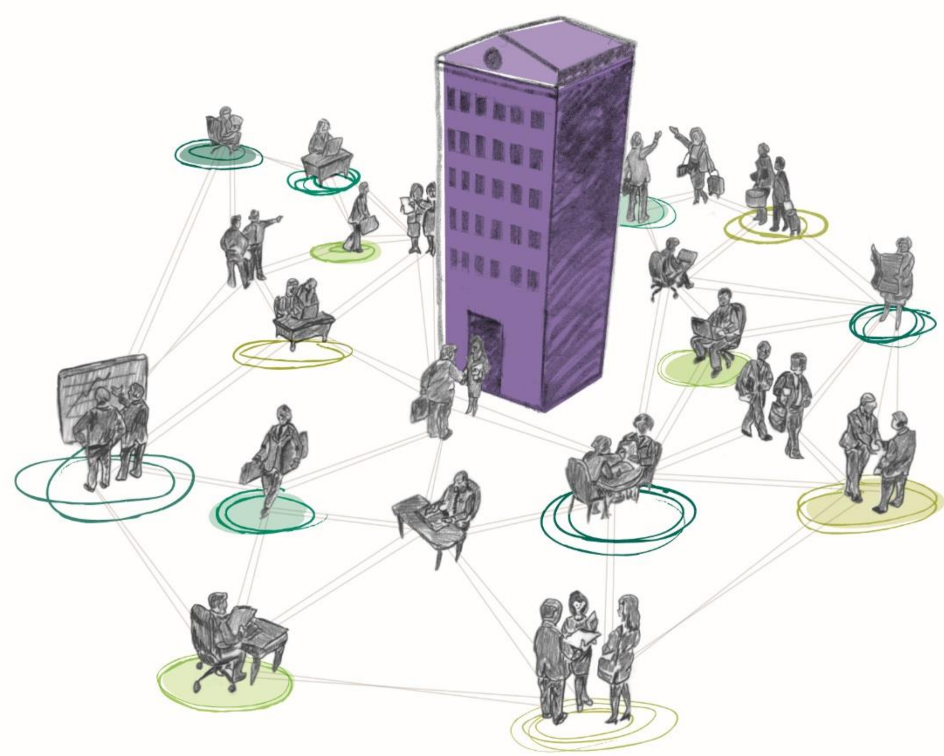
Ben Kohnle –Partner
Kirt Seale – Principal
Natalie Wood – Manager
Todd Herlin – Manager

Our values are CLEARR

To achieve our global vision, we capitalize on our strengths by embracing the following values:

- Unite through global **Collaboration**
- Demonstrate **Leadership** in all we do
- Promote a consistent culture of **Excellence**
- Act with **Agility**
- Ensure deep **Respect** for people
- Take **Responsibility** for our actions

Our values serve as the foundation of each step we take toward achieving our vision. They guide our decision-making and provide a framework for our people to make correct and appropriate choices.



Our responsibilities

We are responsible for:

- Performing an audit of the City's financial statements as prepared by management, conducted under US Generally Accepted Auditing Standards (GAAS) and *Government Auditing Standards*
- Forming and expressing an opinion about whether the financial statements are presented fairly, in all material respects in accordance with US Generally Accepted Accounting Principles (GAAP)
- Forming and expressing an opinion about whether certain supplementary information, including the Schedule of Expenditures of Federal (SEFA) and State Awards (SESA), is fairly stated in relation to the financial statements as a whole
- Reading other information and considering whether it is materially inconsistent with the financial statements
- Communicating fraud and abuse with regard to federal and state programs
- Communicating specific matters to you on a timely basis; we do not design our audit for this purpose
- Reporting material non-compliance related to laws, regulations, contracts and grant agreements, as well as significant deficiencies and/or material weaknesses in internal control related to financial reporting
- Reporting material non-compliance with federal and state awards requirements applicable to major programs audited under OMB Circular A-133 and the State of Texas Single Audit Circular, as well as significant deficiencies and/or material weaknesses in internal control over compliance

An audit provides reasonable, not absolute, assurance that the financial statements do not contain material misstatements due to fraud or error. It does not relieve you or management of your responsibilities. Our respective responsibilities are described further in our engagement letter.

Those Charged with Governance and Management responsibilities

Those Charged with Governance

Those charged with governance are responsible for:

- Overseeing the financial reporting process
- Setting a positive tone at the top and challenging the City's activities in the financial arena
- Discussing significant accounting and internal control matters with management
- Informing us about fraud or suspected fraud, including its views about fraud risks
- Informing us about other matters that are relevant to our audit, such as:
  - Objectives and strategies and related business risks that may result in material misstatement
  - Matters warranting particular audit attention
  - Significant communications with regulators
  - Matters related to the effectiveness of internal control and your related oversight responsibilities
  - Your views regarding our current communications and your actions regarding previous communications

Management

Management is responsible for:

- Preparing and fairly presenting the financial statements, including supplementary information such as SEFA (Schedule of Expenditures of Federal Awards) and SESA (Schedule of Expenditures of State Awards) in accordance with US GAAP
- Designing, implementing, evaluating, and maintaining effective internal control over financial reporting and over compliance with federal and state grant requirements
- Communicating significant accounting and internal control matters to those charged with governance
- Providing us with unrestricted access to all persons and all information relevant to our audit
- Informing us about fraud, illegal acts, significant deficiencies, and material weaknesses
- Adjusting the financial statements, including disclosures, to correct material misstatements
- Informing us of subsequent events
- Providing us with certain written representations

Materiality

Essentially, materiality is the magnitude of an omission or misstatement that likely influences a reasonable person's judgment. It is based on a relevant financial statement benchmark.

- **Based on relevant financial statement benchmarks we believe that Total Assets/ or Total Revenue (by opinion unit) is the appropriate benchmark for the City.**
- **We believe total expenditures on each major program are the appropriate benchmark for the OMB Circular A-133 and State Single Audit.**

Financial statement items greater than materiality are in scope. Other areas less than materiality may be in scope if qualitative factors are present (for example, related party relationships or transactions and fraud risk).

Use of the work of others

Specialists

Harvest investments – Valuation of certain investments

GT Compensation and Benefits Consulting Practice- Review of the City's self-insurance, workers compensation liabilities and other postemployment benefits.

M/WBE Subcontractors

- Hopkins & Associates
- Logan & Associates
- Owen & Thurman, P.C.
- Serna & Company, P.C.

Areas of Audit Focus

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

Areas of focus	
Governance	Fraud inquiries and procedures
Tax revenues	Information technology
Water & Sewer revenues and receivables	Adequacy of disclosures
Tax Revenues	Allowance for doubtful accounts
Investments/Treasury	Pension and OPEB expenses, assets, liabilities, and other disclosures
Payroll and related liabilities	Self-insurance expenses and liabilities, including IBNR
Operating expenditures and related payables	Dallas Water Utilities
Debt	Love Field Airport Modernization Corporation and related transactions
Capital Assets	Grants and Expenditures and Compliance and Controls related to Federal and State Major Programs
Passenger Facility Charge compliance	Airport Revenues Fund
Dallas Convention Center Hotel Development Corporation	Bond issuances

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
- One IT control observation was identified during this year's IT testing, and it was successfully and completely remediated/fixed prior to the end of the financial year.
  - This remediation observation involved inconsistent generation of an audit trail during IT's monitoring process over Advantage Financial System scheduled batch jobs.

Reports issued

Financial statement audits:

- Comprehensive annual financial report (CAFR)
- Single audits
  - Federal (OMB Circular A-133)
  - State (State of Texas Single Audit Circular)

Separate reports:

- Airport Revenues Fund and Passenger Facility Charge compliance
- Dallas Convention Center Hotel Development Corporation
- Dallas Water Utilities
- Downtown Dallas Development Authority Tax Increment Financing District
- Texas Commission on Environmental Quality financial assurance agreed-upon procedures
- Vickery Meadow Tax Increment Financing District

Results of Financial Statement Audits

- Comprehensive Annual Financial Report (CAFR)
  - Unmodified "clean" opinions
  - Includes GFOA Certificate of Achievement for 2013 CAFR. The City has received this award for eight years in a row
  - No scope limitations
  - Continued open and effective communication with management
- Federal Single Audit Report (A-133)
  - Unmodified opinions for all programs
- State Single Audit Report
  - Unmodified opinions for all programs, except for the Riverfront Boulevard State Program for the Reporting compliance requirement
  - One instance of a material weakness noted
  - Prior year finding has been remediated

Results of Financial Statement Audits-continued

Summary of adjustments:

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

Internal control matters

Our responsibility

- Obtain 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control
- We express no opinion on the effectiveness of internal control
- Control deficiencies that are of a lesser magnitude than a significant deficiency were 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 and correct, misstatements or noncompliance with a type of compliance requirement of a federal or state program 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 financial statements or material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis.

Federal and State Major Programs

Federal Programs Audited	State Programs Audited
• Community Development Block Grants (CDBG) • Homeland Security Grant Program • H.O.M.E. • Special Supplemental Nutrition Program for Women, Infants and Children (WIC) • Housing Opportunity for Persons with AIDS	• Trinity Strand Trails Program • Riverfront Boulevard • Urban Search and Rescue • Confiscated Monies • Homeless Housing and Services Program

Single Audits – Current year compliance findings

Source	Program	Award #	Finding	Severity	Status
State	Riverfront Boulevard RTR SH 121 State Program	CSJ: 0918-45-885	Reporting – Based on testing performed, we noted that there were no formal monthly expenditure reports submitted by the City in accordance with the grant agreement.	Material weakness and material noncompliance	New finding

Single Audits – Status of prior year compliance finding

Source		State Award #			
State	Katy Trail VI from Ellsworth Street to Worcola Street	CSJ: 0918-45-808	The City did not have a certification statement within the contract stating that the contractor was not suspended or debarred, nor was there documentation of the City performing an Excluded Parties List System or System for Award Management (EPLS/SAM) website search for suspended or debarred vendors.	Material weakness	Remediated

Other required communications

Disagreements with management

We had no disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the City's financial statements or the auditor's report.

Management's consultations with other accountants

We are not aware of any consultations by management with other accountants regarding accounting or auditing matters.

Difficulties encountered during the audit

We encountered no significant difficulties, including:

- Significant delays in providing information
- Unnecessarily brief time to complete the audit
- Unavailability of expected information or City personnel, including access to information at a component unit
- Restrictions imposed by management, including any related to required supplementary information
- Extensive unexpected effort to obtain evidence

Quality of accounting practices and alternative treatments

Accounting policies

Accounting principles used by the City are considered appropriate in all material respects and consistent with prior year.

Accounting estimates

The following were identified as significant estimates

- 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
- Landfill closure and post-closure

We performed tests to satisfy ourselves that these amounts were free from material misstatement

Disclosures

- 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.

Value for fees

Deliverables
Reports on the 2014 City of Dallas financial statements, including the following: CAFR, Airport Revenue Fund (including the Schedule of Expenditures of Passenger Facility Charges), Dallas Water Utilities, Dallas Convention Center Hotel Development Corporation, Vickery Meadow TIF, and DDDA TIF
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
(For A-133 and State Single Audit) Report on Compliance Related To Major Programs (OMB Circular A-133 and State of Texas Single Audit Circular) and on Internal Control Over Compliance
(For A-133 and State Single Audit) Schedule of Findings and Questioned Costs
Performance of Computer Data Acquisition and Analysis
Provide timely and appropriate communication with management and City Council (Budget, Finance and Audit Committee) regarding technical audit, accounting, and internal control matters
Issue written communications to management and City Council describing significant deficiencies and/or material weaknesses, if any, noted during our audit, as applicable
Verbally communicate to management certain other deficiencies (not determined to be significant deficiencies or material weaknesses) noted during our audit, as applicable

Financial Trends

Financial Highlights – Summary (In Millions)

Government-Wide:	2014	2013	2012	2009	2007
Governmental:					
Change in net position (deficit)	$ 81	$ 83	$ 18	$ (2)	$ (9)
Total net position	2,245	2,163	2,081	1,538	1,526
Ending unrestricted net position (deficit)	(306)	(294)	(280)	(207)	(113)
Capital assets, net	3,596	3,413	3,290	2,653	2,256
Business-type:					
Change in net position (deficit)	$ 114	$ 119	$ 91	$ 70	$ 122
Total net position	3,357	3,243	3,124	2,844	2,664
Ending unrestricted net position (deficit)	363	344	325	186	206
Capital assets, net	5,808	5,592	5,282	4,508	4,129
Governmental:					
Tax Rate (per $100 valuation)					
Total	$ 0.7970	$ 0.7970	$ 0.7970	$ 0.7479	$ 0.7292
General Fund	0.5601	0.5439	0.5379	0.5230	0.5448
Debt Service	0.2369	0.2531	0.2591	0.2249	0.1844
Taxable Assessed Valuation (in billions)	$ 87.3	$ 83.7	$ 82.0	$ 90.5	$ 76.1
Total General Obligation Bonds	$ 1,235.8	$ 1,429.0	$ 1,292.0	$ 1,512.0	$ 1,206.0
Debt Service expenditures as a percentage of non-capital expenditures	15.1%	15.9%	17.5%	17.3%	14.5%
General Fund Balance:					
Total	$ 180.7	$ 157.0	$ 149.0	$ 104.0	$ 133.7
Unreserved/Unassigned	$ 129.2	$ 120.8	$ 101.2	$ 78.3	$ 86.6
General Fund Expenditures	$ 1,091.9	$ 1,022.5	$ 974.6	$ 1,015.5	$ 970.8
Unreserved/Unassigned General Fund balance as a percentage of expenditures	11.84%	11.81%	10.38%	7.71%	8.92%
Excess (deficiency) of revenues over (under) expenditures	$ 3.6	$ 0.5	$ 22.0	$ (17.3)	$ 21.6
Transfers in (out) of General Fund, net	$ 16.1	$ 2.3	$ 0.1	$ (2.7)	(29.3)

Financial Highlights – Summary (continued)

Business-Type:	2014	2013	2012	2009	2007
Income (loss) before transfers and contributions:					
Dallas Water Utilities	$ 137.3	$ 115.8	$ 100.6	$ 58.3	$ 82.3
Convention Center*	-	(7.3)	(4.5)	(8.1)	6.3
Airport Revenue	(6.5)	(5.3)	13.2	7.5	1.5
Total Capital Assets, net					
Dallas Water Utilities	$ 4,391	$ 4,211	$ 3,987	$ 3,513	$ 3,120
Convention Center*	508	511	526	555	580
Airport Revenue	907	868	767	437	427
Ending net position:					
Dallas Water Utilities	$ 2,512	$ 2,393	$ 2,285	$ 2,064	$ 1,903
Convention Center*	267	276	285	303	311
Airport Revenue	552	553	538	471	435
Revenue Bond Coverage:					
Dallas Water Utilities (minimum requirement 1.25)	1.81	1.85	1.73	1.43	1.40
Convention Center*	1.7	1.7	1.6	1.7	1.3
Airport Revenue	N/A	N/A	N/A	10.5	6.4
Internal Service Fund Balance (deficit):					
Risk Funds fund deficit	$ (42.0)	$ (52.2)	$ (56.0)	$ (94.7)	$ (66.1)
Risk Funds claims total liability	66.2	70.1	64.9	93.8	90.6
Risk Funds fund deficit as a % of total general fund balance	23.24%	33.25%	37.56%	91.10%	49.40%
Net Other Post Employment Benefit "OPEB" obligation	$ 229.5	$ 207.5	$ 170.1	$ 73.2	N/A
Landfill closure and post-closure liability	$ 34.6	$ 33.2	$ 32.0	$ 31.7	29.9

*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

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

Government-Wide:	2014	2013	2012	2009	2007
Governmental:					
Change in net position (deficit)	$ 81	$ 83	$ 18	$ (2)	$ (9)
Total net position	2,245	2,163	2,081	1,538	1,526
Ending unrestricted net position (deficit) (1)	(306)	(294)	(280)	(207)	(113)
Capital assets, net (3)	3,596	3,413	3,290	2,653	2,256
Business-type:					
Change in net position	$ 114	$ 119	$ 91	$ 70	$ 122
Total net position	3,357	3,243	3,124	2,844	2,664
Ending unrestricted net position (2)	363	344	325	186	206
Capital assets, net (3)	5,808	5,592	5,282	4,508	4,129

Key Observations:

(1) The "Governmental" unrestricted net deficit increased annually from 2007-2014

(2) The "Business-type" unrestricted net position increased annually from 2012-2014

(3) "Capital Assets, net balances (both "Governmental" and "Business-type") have increased annually from 2007-2014

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

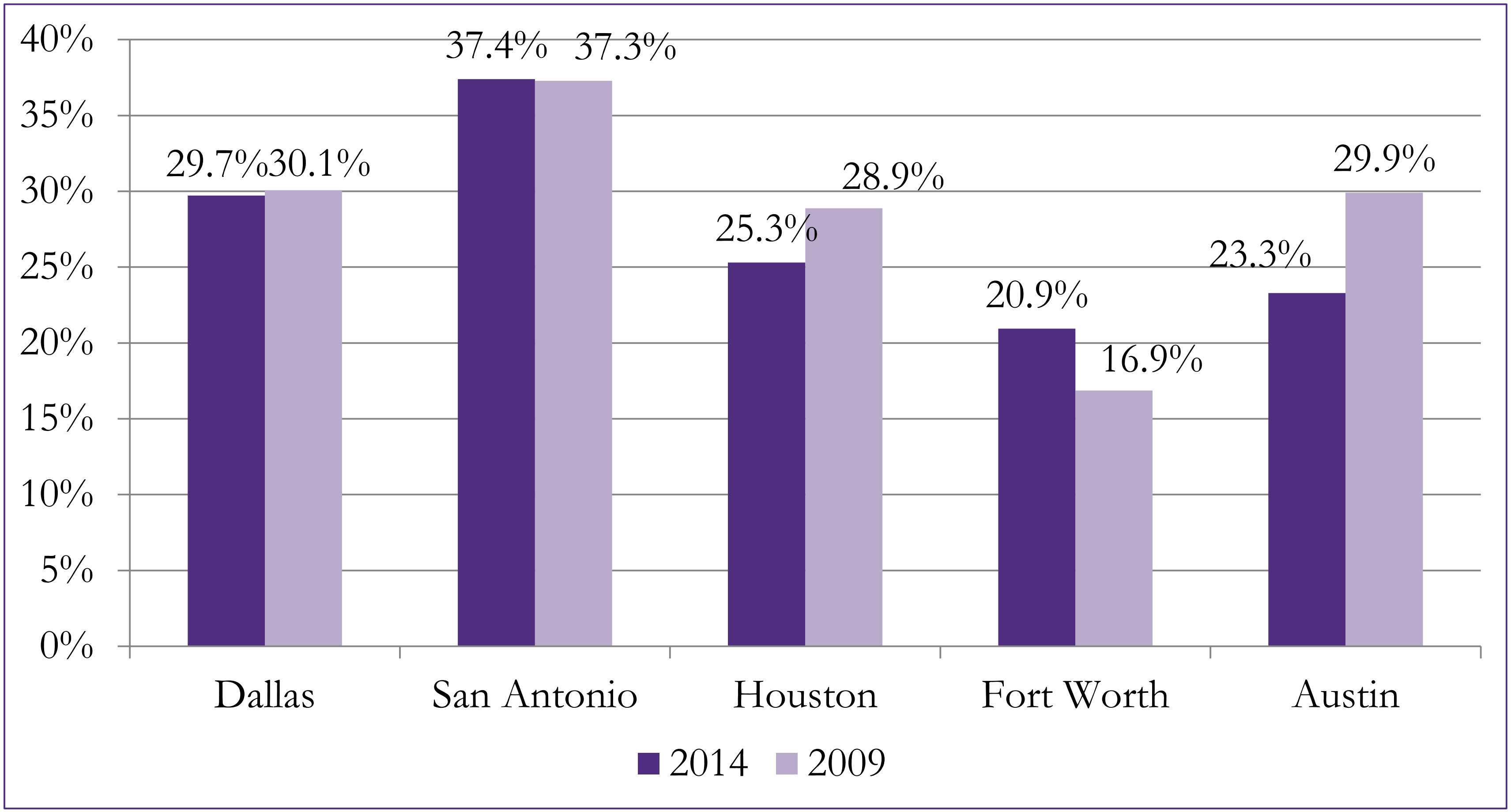
Financial Trends:

Governmental:	2014	2013	2012	2009	2007
Tax Rate (per $100 valuation)					
Total (1)	$ 0.7970	$ 0.7970	$ 0.7970	$ 0.7479	$ 0.7292
General Fund	0.5601	0.5439	0.5379	0.5230	0.5448
Debt Service (2)	0.2369	0.2531	0.2591	0.2249	0.1844
Taxable Assessed Valuation (in billions) (3)	$ 87.3	$ 83.7	$ 82.0	$ 90.5	$ 76.1
Total General Obligation Debt (4)	$ 1,236	$ 1,353	$ 1,292	$ 1,512	$ 1,206
Debt Service expenditures as a percentage of non-capital expenditures (5)	15.10%	15.88%	17.50%	17.34%	14.53%

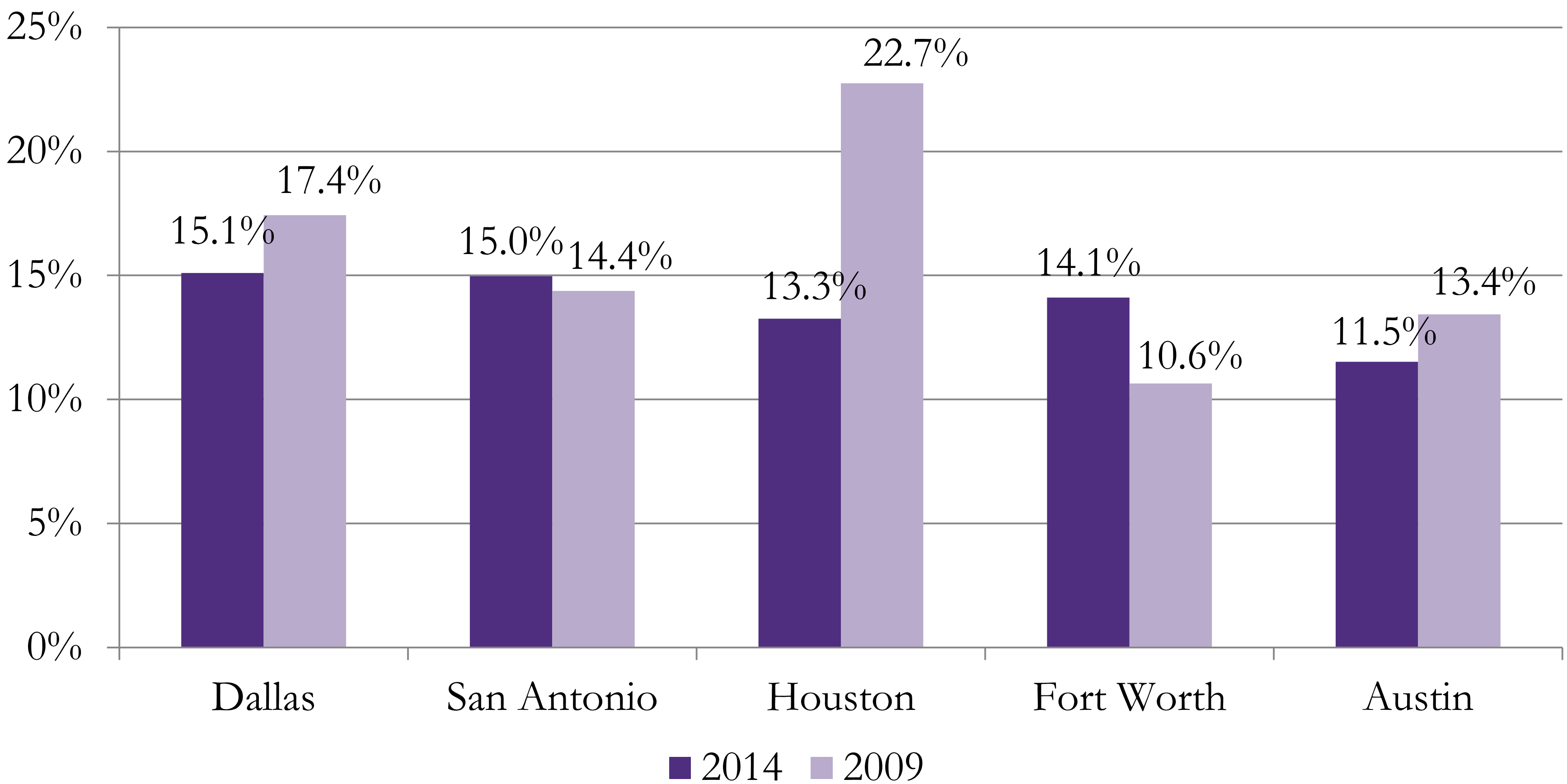
Key Observations:

(1) The total tax rate remained unchanged from 2009-2010, then increased in 2011 and remained unchanged from 2012-2014.
(2) The tax rate component for debt service increased annually from 2009-2011, then decreased annually from 2012-2014
(3) The taxable assessed valuation decreased annually from 2009-2012 then increased from 2012-2014
(4) Total General Obligation debt decreased annually from 2009-2012 then increased from 2012-2013 then decreased in 2014
(5) Debt service expenditures as a % of non-capital expenditures decreased from 2012-2014

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



Debt Service Expenditures as a % 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:

	2014	2013	2012	2009	2007
General Fund Balance: (1)					
Total	$ 180.7	$ 157.0	$ 149.0	$ 104.0	$ 133.7
Unreserved/Unassigned	$ 129.2	$ 120.8	$ 101.2	$ 78.3	$ 86.6
General Fund Expenditures (2)	$ 1,091.9	$ 1,022.5	$ 974.6	$ 1,015.5	$ 970.8
Unreserved/Unassigned General Fund balance as a percentage of expenditures (1)	11.84%	11.81%	10.38%	7.71%	8.92%
Excess (deficiency) of revenues over (under) expenditures (3)	$ 3.6	$ 0.5	$ 22.0	$ (17.3)	$ 21.6
Transfers in (out) of General Fund, net (4)	$ 16.1	$ 2.3	$ 0.1	$ (2.7)	$ (29.3)

Key Observations:

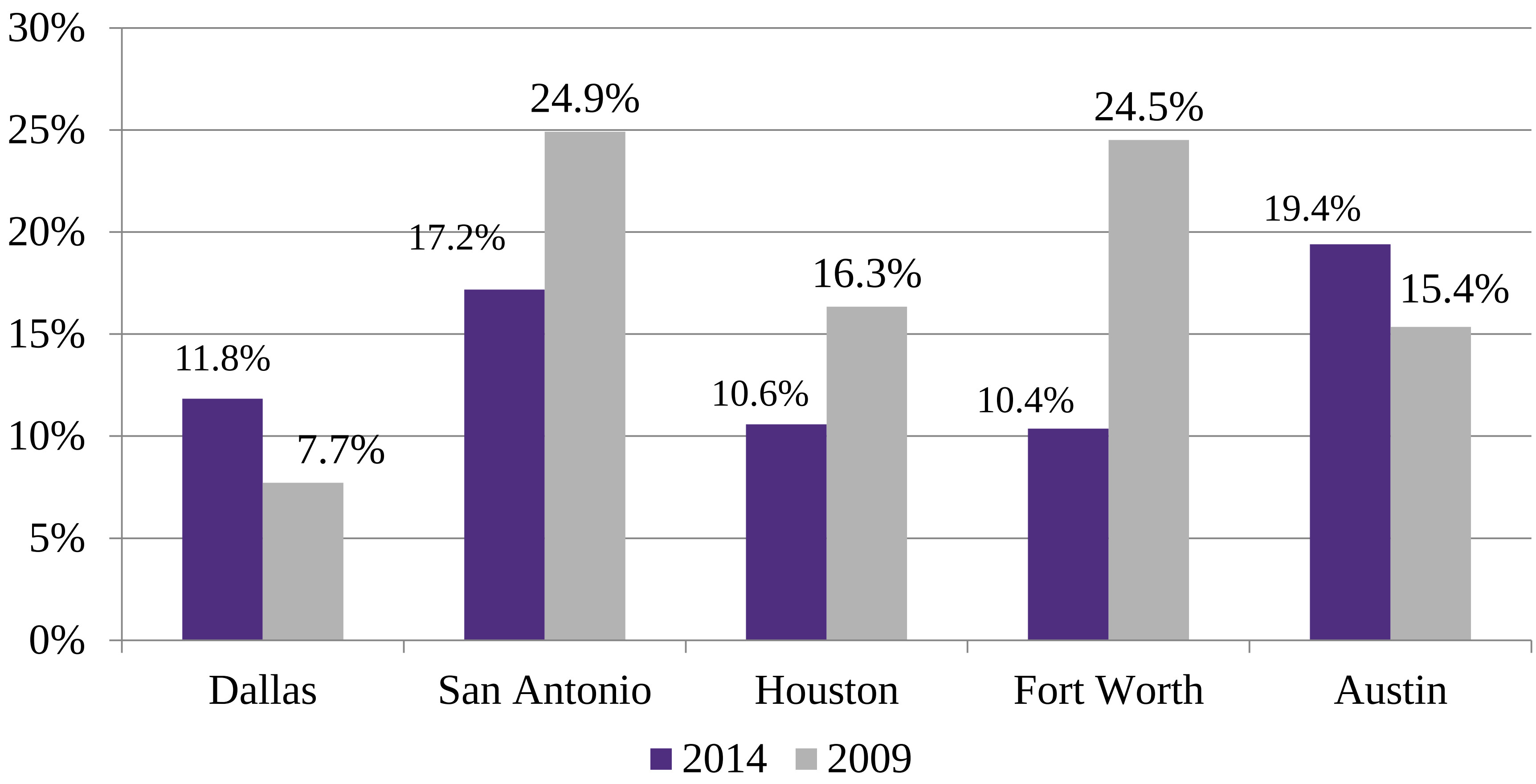
(1) The General Fund Balance ("total" and "unreserved/unassigned" components) and the "unreserved/unassigned general fund balance as a percentage of expenditures" decreased until 2010 and then increased annually in 2011, 2012, 2013, & 2014

(2) General Fund expenditures have remained relatively consistent from 2009-2014

(3) 2008 through 2010 before becoming an excess in 2011 through 2014

(4) The transfers (out), net of the General Fund declined annually from 2008-2009, and then became a net "transfer-in" in 2010 before becoming a net transfer (out) again in 2011, and breakeven in 2012 and then increased annually in 2013 and 2014

Unassigned/Unreserved General Fund Balance as a % 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:

	2014	2013	2012	2009	2007
Income (loss) before transfers and contributions:					
Dallas Water Utilities (4)	$ 137.3	$ 115.8	$ 100.6	$ 58.3	$ 82.3
Convention Center*	(21.0)	(7.3)	(4.5)	(8.1)	6.3
Airport Revenue	(6.5)	(5.3)	13.2	7.5	1.5
Total Capital Assets, net (1)					
Dallas Water Utilities	$ 4,391	$ 4,211	$ 3,987	$ 3,513	$ 3,120
Convention Center*	508	511	526	555	580
Airport Revenue	907	868	767	437	427
Revenue Bond Coverage:					
Dallas Water Utilities (2)	1.81	1.85	1.76	1.43	1.40
Convention Center* (3)	1.7	1.7	1.6	1.7	1.3
Airport Revenue	N/A	N/A	N/A	10.5	6.4

Key Observations:

(1) Total Capital Assets, net increased annually between 2009-2014

(2) Revenue Bond Coverage for Dallas Water Utilities remained relatively consistent, and increased in 2012

(3) Revenue Bond Coverage for Convention Center increased annually from 2008-2011 and decreased in 2012 and remained consistent in 2013 and 2014

(4) Dallas Water Utilities was lower in 2009 due to a particularly wet year, which resulted in lower water usage in the months that are typically hot and dry. 2010-2013 sold more water due to the drought that plagued those years

*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,

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:

	2014	2013	2012	2009	2007
Internal Service Fund Balance (deficit): (1)					
Risk Funds fund deficit	$ (42.0)	$ (52.2)	$ (56.0)	$ (94.7)	$ (66.1)
Risk Funds claims total liability	66.2	70.1	64.9	93.8	90.6
Risk Funds fund deficit as a % of total general fund balance (2)	23.24%	33.25%	37.56%	91.10%	49.40%
Net Other Post Employment Benefit "OPEB" obligation (3)	$ 229.50	$ 207.50	$ 170.10	$ 73.20	N/A
Landfill closure and post-closure liability (4)	$ 34.57	$ 33.20	$ 32.00	$ 31.70	$ 29.90
Unfunded Pension Benefit Obligation (5)	New accounting rules in progress				

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 increased annually 2009-2010, then decreased in 2012-2014

(3) The net OPEB obligation has increased annually 2009-2014, 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 from 2009-2014

(5) New accounting rules, specifically GASB Statement Number 68, will require the City to accrue a liability on its financial statements for its unfunded pension benefit obligation. The City plans to implement this as required by GASB during the fiscal year ending September 30, 2015

Questions & Answers

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 found on our internal website
- Can be accessed from our external website (https://secure.ethicspoint.com/domain/en/report_custom.asp?clientid=15191)

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

This communication is intended solely for the information and use of management and the Budget, Finance, and Audit Committee of the City of Dallas and is not intended to be and should not be used by anyone other than these specified parties.

GrantThornton

www.grantthornton.com

Selected pronouncements effective for the year ending June 30, 2015 or subsequent periods

GASB pronouncement	Effective date	Summary
GASB Statement 68, *Accounting and Financial Reporting for Pensions- an Amendment of GASB Statement No. 27*	Periods beginning after June 15, 2014	Certain pensions are defined as single employer, agent employer or cost sharing employer. Requires recording a liability/asset for the difference between actuarially determined liability and net position.
GASB Statement 71, *Pension transition for contributions made subsequent to the measurement date- an amendment of GASB Statement No. 68*	To be applied simultaneously with GASB No. 68	To clarify guidance related to contributions made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability, requiring the government to recognize a beginning net deferred outflow of resources for its pension contribution made subsequent to the measurement date of the beginning net pension liability.
GASB Statement 72, *Fair Value Measurements and Application*	Periods beginning after June 15, 2105	Provides clarity on accounting and financial reporting issues related to fair value measurements. Additionally enhances fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position.

GASB Statement 68, *Accounting and financial reporting for pensions- an amendment of GASB Statement No. 27*

Summary	Potential Impact
• Scope is limited to pensions provided through trusts that meet certain criteria • Excludes all OPEB (there is a separate GASB project to revisit accounting for OPEB) • Applies to employers and non-employer contributing entities that have a legal obligation to make contributions directly to a pension plan • Revised recognition, measurement, and disclosure requirements for all employers ➢ Liability is measured net of pension plan's fiduciary net position and is fully recognized in accrual-basis financial statements ➢ Changes in the obligation are recognized as ○ expense in the period of the change OR ○ deferred outflows/inflows of resources with expense recognized over defined future periods • Defines net pension liability - overall pension obligation reduced by assets of the plan • Each participating employer must record allocated share of unfunded liability (i.e., a government participating in a cost-sharing pension plan will report a liability in its own financial statements that is equivalent to its long-term proportionate share of the collective net pension liability- allocation will be based on the employers expected contribution effort relative to that of all contributors to the plan) • Effective for periods beginning after June 14, 2014 (year ending June 30, 2015 for June 30 year ends)	Pronouncement could have a significant impact on the statement of net position for employers participating in defined benefit and defined contribution plans (and nonemployer contributing entities) that will be recording an estimated/apportioned pension liability for the first time.

GASB Statement 71, *Pension transition for contributions made subsequent to the measurement date- an amendment of GASB Statement No. 68*

Summary	Potential Impact
• Clarification of adoption issue related to GASB Statement No. 68 related to contributions made subsequent to measurement date • In certain circumstances, there could be a situation where a government entity would be understating deferred outflows in the transition year of adoption of GASB Statement No. 68. • Effective simultaneous with adoption of GASB Statement No. 68	If a governmental employer or non-employer contributing entity makes contributions to its pension plan after the measurement date of the beginning net pension liability, these must be recognized as a deferred outflow of resources.

GASB Statement 72, *Fair Value Measurement and Application*

Summary	Potential Impact

• Defines "fair value" as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."
• Governments are generally required to measure investments at fair value using one of three techniques
➢ Market approach
➢ Cost approach
➢ Income approach
• Establishes a three level hierarchy of inputs to valuation techniques used to measure fair value. The guidance is very similar to existing guidance for FASB organizations.
  • Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
  • Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly.
  • Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security
• Requires disclosures to be made about fair value measurement, the level of fair value hierarchy, and valuation techniques.
• Effective for periods beginning after June 15, 2015.
	This will significantly impact accounting for certain investments that may have been reported at cost due to ambiguity within previous guidance. In addition, all public colleges and universities will need to revise the existing disclosures to conform to the new disclosure requirements, which are very similar to current disclosure requirements for FASB organizations. Gathering the "Leveling" information required to be disclosed could be difficult to identify and time-consuming, depending on the instruments that are within the three categories of the valuation hierarchy. Pubic institutions are encouraged to review disclosures of large/complex private (FASB) institutions for helpful examples.