

# Memorandum



CITY OF DALLAS

DATE June 3, 2016

TO Members of the Budget, Finance & Audit Committee: Jennifer S. Gates (Chair), Philip T. Kingston (Vice Chair), Erik Wilson, Rickey D. Callahan, Scott Griggs, Lee M. Kleinman

SUBJECT Communications Related to the Fiscal Year 2015 Audit

On Monday, June 6, 2016, the Budget, Finance and Audit committee will be briefed on the Communications Related to the Fiscal Year 2015 Audit. The briefing will be presented by Dan Barron, Partner with Grant Thornton.

Please let me know if you need additional information.

  
Jeanne Chipperfield  
Chief Financial Officer

Attachment

c: The Honorable Mayor and Members of the City Council  
AC Gonzalez, City Manager  
Christopher D. Bowers, Interim City Attorney  
Craig D. Kinton, City Auditor  
Rosa A. Rios, City Secretary  
Daniel F. Solis, Administrative Judge  
Ryan S. Evans, First Assistant City Manager  
Eric D. Campbell, Assistant City Manager  
Jill A. Jordan, P.E., Assistant City Manager  
Mark McDaniel, Assistant City Manager  
Joey Zapata, Assistant City Manager  
Sana Syed, Public Information Officer  
Elsa Cantu, Assistant to the City Manager – Mayor & Council



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

## Communications Related to the Fiscal Year 2015 Audit June 6, 2016

### Attendees:

Dan Barron–Partner

Kirt Seale – Principal

Juliet Williams– Experienced Manager

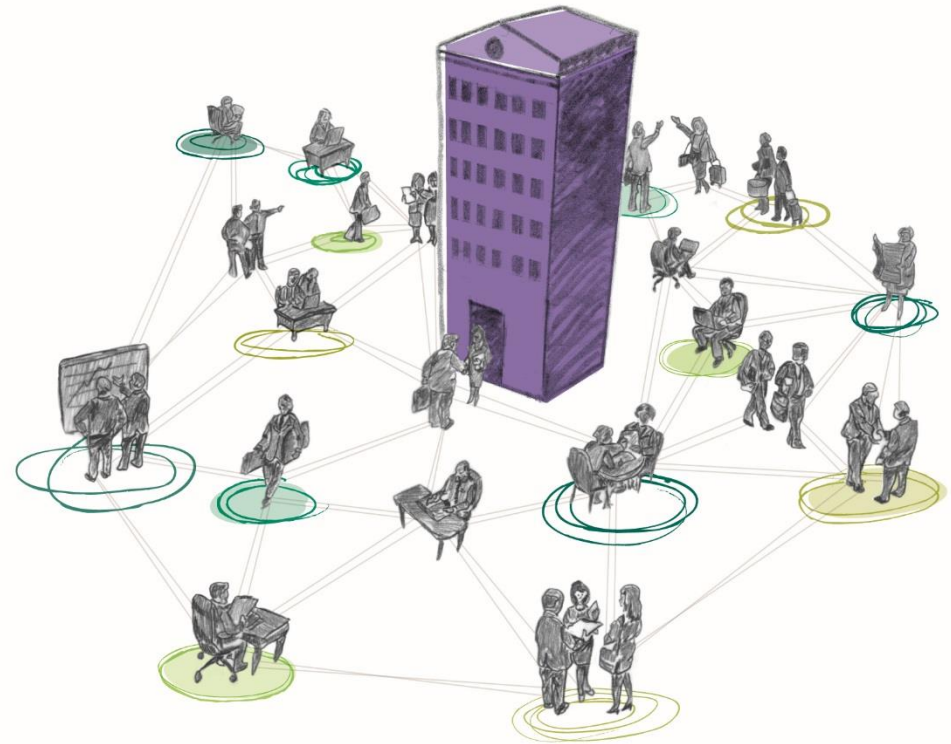


# Our values are CLEARR

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.



## Our responsibilities – continued

Additionally, we perform stand-alone audits and express opinions on the following components of the City:

- Airport Revenues Fund
- Dallas Convention Center Hotel Development Corporation
- Dallas Water Utilities
- Downtown Dallas Development Authority Tax Increment Financing District
- Vickery Meadow Tax Increment Financing District

We perform controls and compliance testing for the Airport Revenues Funds Passenger Facility Charges (PFC), based on the PFC Audit Guide

We perform agreed-upon-procedures related to City's landfills for the Texas Commission on Environmental Quality

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.

- **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, health and workers' compensation liabilities, net pension liability, and other postemployment benefits (OPEB).

## 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 audit focus   | Assertions   |
|--|--|
| Water and Sewer Revenues and Receivables<br>Airport Revenues and Receivables   | Existence and occurrence   |
| Capital Assets   | Valuation-gross and valuation-net  |
| Investments  | Valuation-net  |
| Net pension liability and expense (GASB 68), actuarial information related to self-insurance (IBNR) – general, workers' compensation and health liabilities and OPEB Plans | Presentation and disclosure<br>Completeness and accuracy                             |
| Compliance and controls related to federal and state single audit major programs   | Completeness and accuracy of SEFA and SESA   |
| Payroll and related liabilities  | Completeness and accuracy<br>Self-insurance expenses and liabilities, including IBNR |
| Debt compliance and ratios   | Compliance with debt covenants   |



## Areas of Audit Focus-continued

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

| Controls                 | Cycles        |
|--------------------------|---------------|
| Controls- based approach | Payroll       |
| Controls- based approach | Disbursements |

### Other Areas:

- Governance
- Fraud inquiries
- Information technology
- Adequacy of disclosures
- Investments/Treasury
- Debt
- Tax Revenues
- Allowance for doubtful accounts
- 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



# 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 fiscal year.
  - This remediation observation involved employee access to maintain Transport Management System in SAP.

# 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 2014 CAFR. The City has received this award for nine years in a row
  - No scope limitations
  - Continued open and effective communication with management
- Federal Single Audit Report (A-133)
  - Unmodified opinion for all programs
  - One instance of noncompliance noted
  - One material weakness reported
- State Single Audit Report
  - Unmodified opinion for all programs
  - No findings of noncompliance or material weaknesses reported
  - 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

## 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)                      | Health Community Collaborative                                 |
| Community Development Block Grants Section 108 Loan Guarantees | Air Pollution Control Investigation and Compliant Response     |
| Continuum of Care Program                                      | Riverfront Boulevard   |
| Airport Improvement Program                                    | Urban Search and Rescue Task Force Program                     |
| Homeland Security Grant Program                                | Dallas CBD car Circulator-from CDB to Oak Cliff to Bishop Arts |



## Single Audits – Current year findings

| Source  | Program           | Award #   | Finding   | Severity          | Status      |
|---------|-------------------|---|---|-------------------|-------------|
| Federal | Continuum of Care | TX0072L6T001306<br>TX0050L6T001306                    | Special Test: Reasonable Rental Rates- based on testing performed, we noted one (1) of sixty (60) participant files reviewed was 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     | New finding |
| Federal | Continuum of Care | TX0236L6T001305<br>TX0050L6T001306<br>TX0072L6T001306 | <p>Eligibility, Special Test: Housing Quality Standards, 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.</p> <p>Eligibility: Two (2) of sixty (60) client files reviewed were missing the Payment Request Worksheet; and two (2) of (60) participant files reviewed were missing the Tenant Rent Calculation Worksheet</p> | Material Weakness | New finding |

## Single Audits – Current year findings – continued

| Source  | Program           | Award #   | Finding  | Severity          | Status      |
|---------|-------------------|---|--|-------------------|-------------|
| Federal | Continuum of Care | TX0236L6T001305<br>TX0050L6T001306<br>TX0072L6T001306 | <p>Housing Quality Standards: One (1) of sixty (60) participant files reviewed was missing the Housing Quality Inspection Report</p> <p>Reasonable Rental Rates: One (1) of sixty (60) participant files reviewed was missing a properly completed Rent Reasonableness Determination form, and the Tenant Rent Calculation Worksheet</p> | Material Weakness | New finding |

## Single Audits – Status of prior year finding

| Source | Program  | Award #          | Finding  | Severity  | Status     |
|--------|--|------------------|--|---|------------|
| State  | Riverfront<br>Boulevard RTR<br>SH 121 State<br>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<br>weakness and<br>material<br>noncompliance | 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 and other 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 doubtful accounts
- Accruals for self-insurance liabilities, including Incurred But Not Reported (IBNR) Claims – general, health and workers' compensation
- Net pension liability, expense, and related disclosures, including RSI - GASB 68
- OPEB Liability and related disclosures, including RSI
- Landfill closure and post-closure

## 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 2015 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)

| <u>Government-Wide:</u>  | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2009</u> |
|--|-------------|-------------|-------------|-------------|-------------|
| Governmental:  |             |             |             |             |             |
| Change in net position (deficit)   | \$ 257      | \$ 81       | \$ 83       | \$ 18       | \$ (2)      |
| Total net position   | (2,679) *   | 2,245       | 2,163       | 2,081       | 1,538       |
| Ending unrestricted net position (deficit)                                 | (5,393) *   | (306)       | (294)       | (280)       | (207)       |
| Capital assets, net  | 3,735       | 3,596       | 3,413       | 3,290       | 2,653       |
| Business-type:   |             |             |             |             |             |
| Change in net position (deficit)   | \$ 93       | \$ 114      | \$ 119      | \$ 91       | \$ 70       |
| Total net position   | 3,280       | 3,357       | 3,243       | 3,124       | 2,844       |
| Ending unrestricted net position (deficit)                                 | 239         | 363         | 344         | 325         | 186         |
| Capital assets, net  | 6,057       | 5,808       | 5,592       | 5,282       | 4,508       |
| <u>Governmental:</u>   |             |             |             |             |             |
| Tax Rate (per \$100 valuation)   |             |             |             |             |             |
| Total  | \$ 0.7970   | \$ 0.7970   | \$ 0.7970   | \$ 0.7970   | \$ 0.7479   |
| General Fund   | 0.5646      | 0.5601      | 0.5439      | 0.5379      | 0.5230      |
| Debt Service   | 0.2324      | 0.2369      | 0.2531      | 0.2591      | 0.2249      |
| Taxable Assessed Valuation (in billions)                                   | \$ 93.1     | \$ 87.3     | \$ 83.7     | \$ 82.0     | \$ 90.5     |
| Total General Obligation Bonds   | \$ 1,406.0  | \$ 1,235.8  | \$ 1,429.0  | \$ 1,292.0  | \$ 1,512.0  |
| Debt Service expenditures as a percentage of non-capital expenditures      | 16.3%       | 15.1%       | 15.9%       | 17.5%       | 17.3%       |
| General Fund Balance:  |             |             |             |             |             |
| Total  | \$ 200.1    | \$ 180.7    | \$ 157.0    | \$ 149.0    | \$ 104.0    |
| Unreserved/Unassigned  | \$ 141.6    | \$ 129.2    | \$ 120.8    | \$ 101.2    | \$ 78.3     |
| General Fund Expenditures  | \$ 1,138.8  | \$ 1,091.9  | \$ 1,022.5  | \$ 974.6    | \$ 1,015.5  |
| Unreserved/Unassigned General Fund balance as a percentage of expenditures | 12.43%      | 11.84%      | 11.81%      | 10.38%      | 7.71%       |
| Excess (deficiency) of revenues over (under) expenditures                  | \$ 11.4     | \$ 3.6      | \$ 0.5      | \$ 22.0     | \$ (17.3)   |
| Transfers in (out) of General Fund, net                                    | \$ 7.5      | \$ 16.1     | \$ 2.3      | \$ 0.1      | \$ (2.7)    |

\* - Deficit net position due to approximate \$5 billion net pension liability from implementation of GASB 68.



# Financial Highlights – Summary (continued)

| <u>Business-Type:</u>  | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2009</u> |
|--|-------------|-------------|-------------|-------------|-------------|
| Income (loss) before transfers and contributions:            |             |             |             |             |             |
| Dallas Water Utilities                                       | \$ 77.7     | \$ 137.3    | \$ 115.8    | \$ 100.6    | \$ 58.3     |
| Convention Center*   | 6.9         | -           | (7.3)       | (4.5)       | (8.1)       |
| Airport Revenue  | 7.3         | (6.5)       | (5.3)       | 13.2        | 7.5         |
| Total Capital Assets, net                                    |             |             |             |             |             |
| Dallas Water Utilities                                       | \$ 4,601    | \$ 4,391    | \$ 4,211    | \$ 3,987    | \$ 3,513    |
| Convention Center*   | 495         | 508         | 511         | 526         | 555         |
| Airport Revenue  | 960         | 907         | 868         | 767         | 437         |
| Ending net position:   |             |             |             |             |             |
| Dallas Water Utilities                                       | \$ 2,450    | \$ 2,512    | \$ 2,393    | \$ 2,285    | \$ 2,064    |
| Convention Center*   | 266         | 267         | 276         | 285         | 303         |
| Airport Revenue  | 558         | 552         | 553         | 538         | 471         |
| Revenue Bond Coverage:                                       |             |             |             |             |             |
| Dallas Water Utilities (minimum requirement 1.25)            | 1.54        | 1.81        | 1.85        | 1.73        | 1.43        |
| Convention Center*   | 2           | 1.7         | 1.7         | 1.6         | 1.7         |
| Airport Revenue  | N/A         | N/A         | N/A         | N/A         | 10.5        |
| Internal Service Fund Balance (deficit):                     |             |             |             |             |             |
| Risk Funds fund deficit                                      | \$ (51.5)   | \$ (42.0)   | \$ (52.2)   | \$ (56.0)   | \$ (94.7)   |
| Risk Funds claims total liability                            | 68.7        | 66.2        | 70.1        | 64.9        | 93.8        |
| Risk Funds fund deficit as a % of total general fund balance | 25.74%      | 23.24%      | 33.25%      | 37.56%      | 91.10%      |
| Net Other Post Employment Benefit "OPEB" obligation          | \$ 241.5    | \$ 229.5    | \$ 207.5    | \$ 170.1    | \$ 73.2     |
| Landfill closure and post-closure liability                  | \$ 35.8     | \$ 34.6     | \$ 33.2     | \$ 32.0     | \$ 31.7     |
| Net Pension Liability  | \$ 5,601.6  | \$ 5,091.6  |             |             |             |

\*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 plus deferred outflows vs. liabilities plus deferred inflows
- "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>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2009</u> |
|--|-------------|-------------|-------------|-------------|-------------|
| Governmental:                                  |             |             |             |             |             |
| Change in net position (deficit)               | \$ 257      | \$ 81       | \$ 83       | \$ 18       | \$ (2)      |
| Total net position                             | (2,679)     | 2,245       | 2,163       | 2,081       | 1,538       |
| Ending unrestricted net position (deficit) (1) | (5,393)     | (306)       | (294)       | (280)       | (207)       |
| Capital assets, net (3)                        | 3,735       | 3,596       | 3,413       | 3,290       | 2,653       |
| Business-type:                                 |             |             |             |             |             |
| Change in net position                         | \$ 93       | \$ 114      | \$ 119      | \$ 91       | \$ 70       |
| Total net position                             | 3,280       | 3,357       | 3,243       | 3,124       | 2,844       |
| Ending unrestricted net position (2)           | 239         | 363         | 344         | 325         | 186         |
| Capital assets, net (3)                        | 6,057       | 5,808       | 5,592       | 5,282       | 4,508       |

## Key Observations:

- (1) The "Governmental" unrestricted net (deficit) position slightly increased annually from 2009-2014 and then significantly increased in 2015 due to the approximate \$5 billion net pension liability from the implementation of GASB 68
- (2) The "Business-type" unrestricted net position increased annually from 2012-2014, but decreased in 2015
- (3) "Capital Assets, net balances (both "Governmental" and "Business-type") have increased annually from 2009-2015

# 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

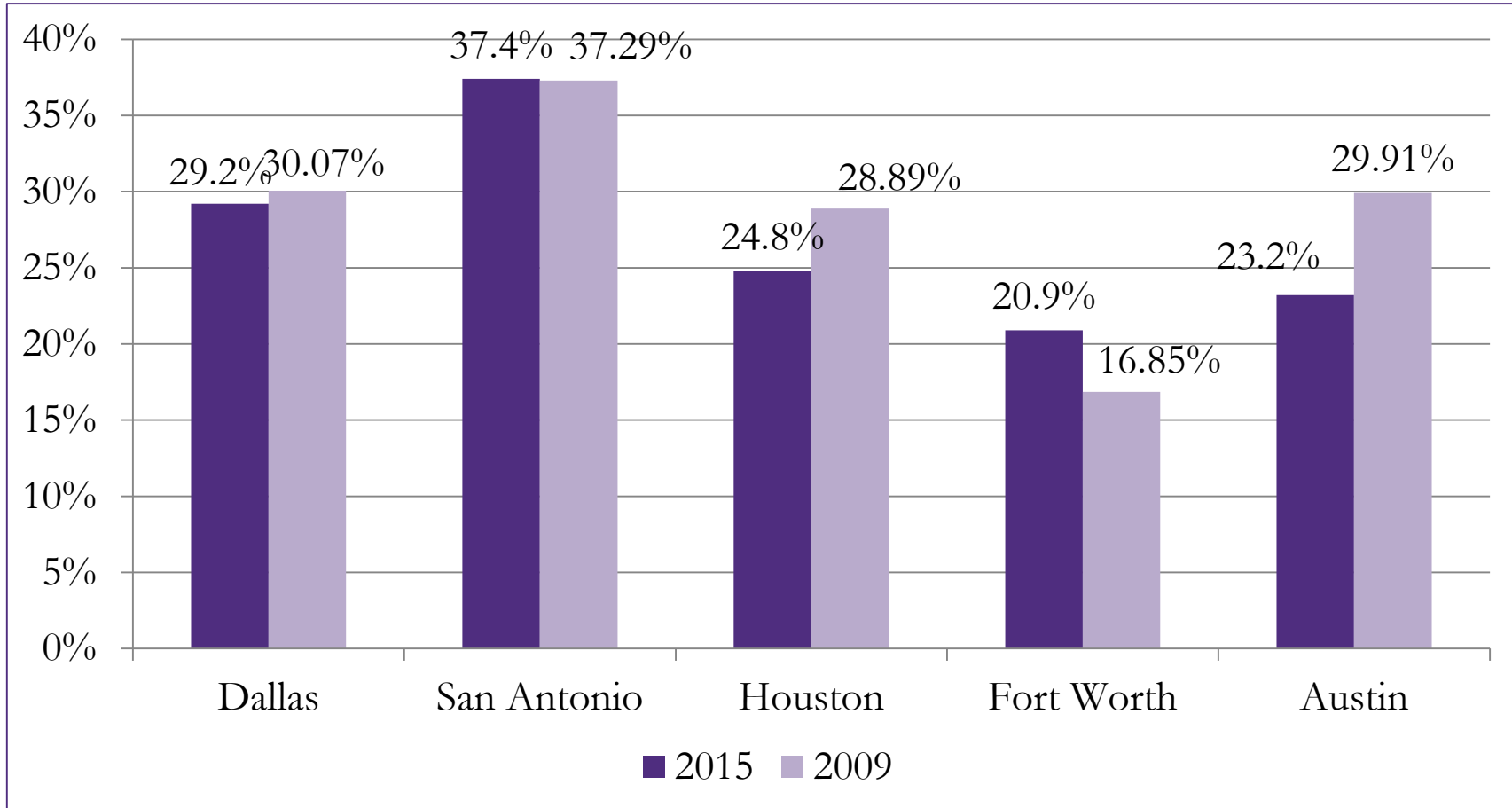
## Financial Trends:

| <u>Governmental:</u>  | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2009</u> |
|---|-------------|-------------|-------------|-------------|-------------|
| Tax Rate (per \$100 valuation)  |             |             |             |             |             |
| Total (1)   | \$ 0.7970   | \$ 0.7970   | \$ 0.7970   | \$ 0.7970   | \$ 0.7479   |
| General Fund  | 0.5646      | 0.5601      | 0.5439      | 0.5379      | 0.5230      |
| Debt Service (2)  | 0.2324      | 0.2369      | 0.2531      | 0.2591      | 0.2249      |
| Taxable Assessed Valuation (in billions) (3)                              | \$ 93.1     | \$ 87.3     | \$ 83.7     | \$ 82.0     | \$ 90.5     |
| Total General Obligation Debt (4)   | \$ 1,406    | \$ 1,236    | \$ 1,353    | \$ 1,292    | \$ 1,512    |
| Debt Service expenditures as a percentage of non-capital expenditures (5) | 16.34%      | 15.10%      | 15.88%      | 17.50%      | 17.34%      |

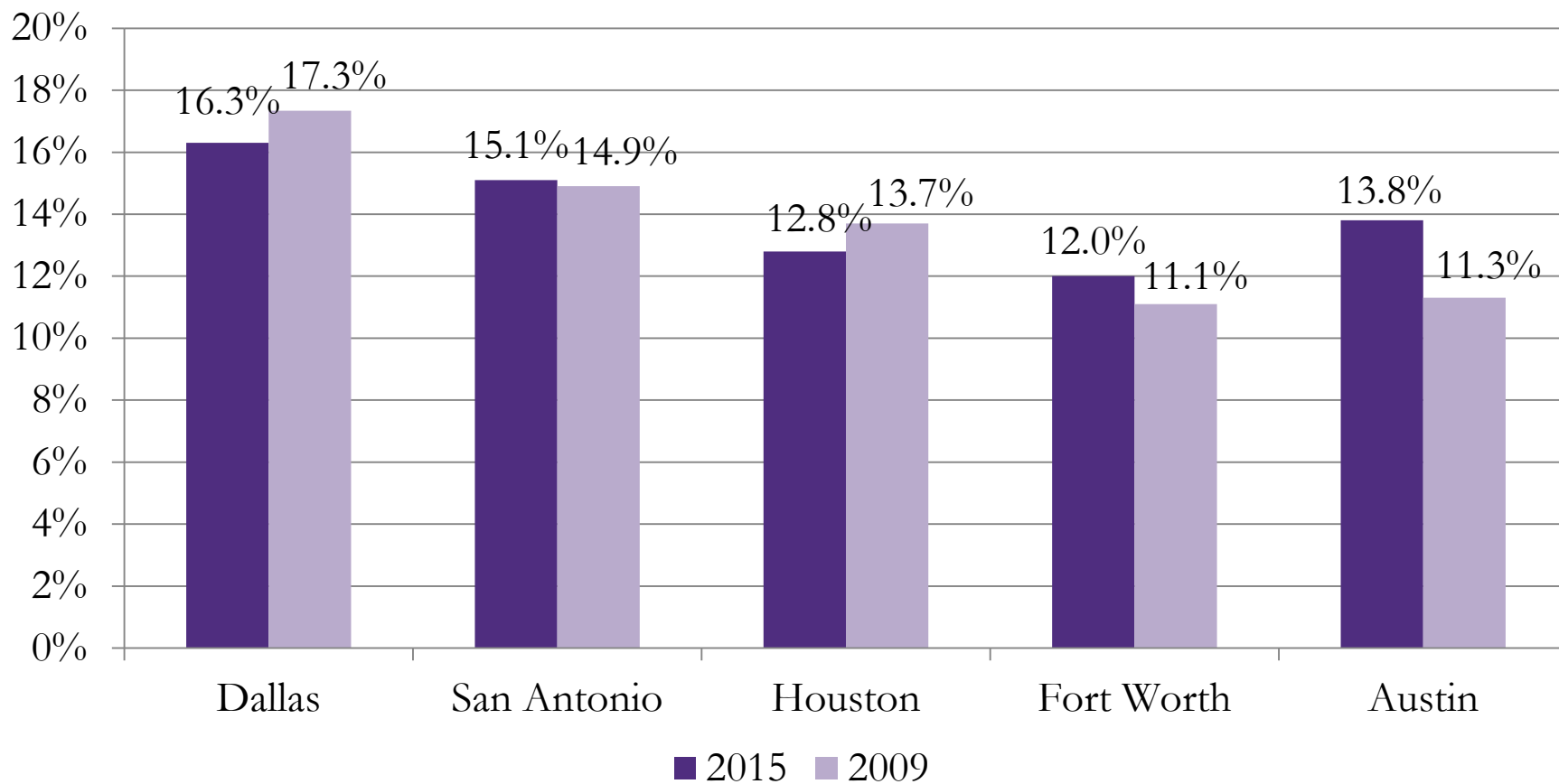
## Key Observations:

- (1) The total tax rate remained unchanged from 2012-2015
- (2) The tax rate component for debt service increased annually from 2009-2012, then decreased annually from 2013-2015
- (3) The taxable assessed valuation increased annually from 2012-2015
- (4) Total General Obligation debt decreased annually from 2009-2012, increased in 2013, decreased in 2014, and increased in 2015
- (5) Debt service expenditures as a % of non-capital expenditures decreased from 2012-2014, and increased in 2015.

# 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

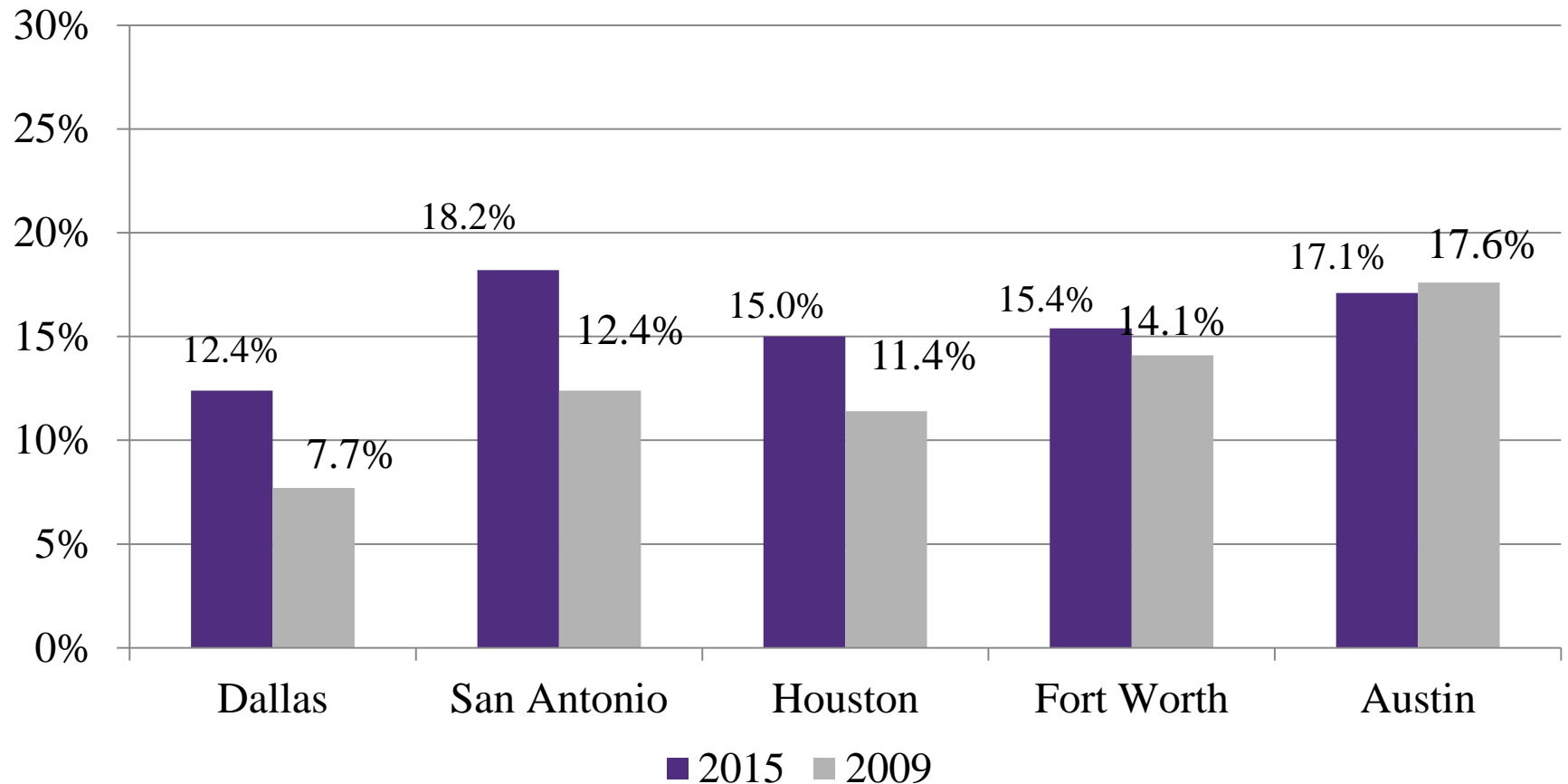
## Financial Trends:

|   | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2009</u> |
|---|-------------|-------------|-------------|-------------|-------------|
| General Fund Balance: (1)   |             |             |             |             |             |
| Total   | \$ 200.1    | \$ 180.7    | \$ 157.0    | \$ 149.0    | \$ 104.0    |
| Unreserved/Unassigned   | \$ 141.6    | \$ 129.2    | \$ 120.8    | \$ 101.2    | \$ 78.3     |
| General Fund Expenditures (2)   | \$ 1,138.8  | \$ 1,091.9  | \$ 1,022.5  | \$ 974.6    | \$ 1,015.5  |
| Unreserved/Unassigned General Fund balance<br>as a percentage of expenditures (1) | 12.43%      | 11.84%      | 11.81%      | 10.38%      | 7.71%       |
| Excess (deficiency) of revenues over (under)<br>expenditures (3)                  | \$ 11.4     | \$ 3.6      | \$ 0.5      | \$ 22.0     | \$ (17.3)   |
| Transfers in (out) of General Fund, net (4)                                       | \$ 7.5      | \$ 16.1     | \$ 2.3      | \$ 0.1      | \$ (2.7)    |

## Key Observations:

- (1) The General Fund Balance ("total" and "unreserved/unassigned" components) and the "unreserved/unassigned general fund balance as a percentage of expenditures" increased annually from 2009-2015
- (2) General Fund expenditures have remained relatively consistent from 2009-2015
- (3) Revenues were in deficit of expenditures in 2009, and have become in excess from 2012-2015
- (4) The transfers in (out), net of the General Fund was an out in 2009 and has been an in from 2012-2015.

# 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:

|   | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2009</u> |
|---|-------------|-------------|-------------|-------------|-------------|
| Income (loss) before transfers and contributions: |             |             |             |             |             |
| Dallas Water Utilities (4)                        | \$ 77.7     | \$ 137.3    | \$ 115.8    | \$ 100.6    | \$ 58.3     |
| Convention Center*                                | 6.9         | (21.0)      | (7.3)       | (4.5)       | (8.1)       |
| Airport Revenue                                   | 7.3         | (6.5)       | (5.3)       | 13.2        | 7.5         |
| Total Capital Assets, net (1)                     |             |             |             |             |             |
| Dallas Water Utilities                            | \$ 4,601    | \$ 4,391    | \$ 4,211    | \$ 3,987    | \$ 3,513    |
| Convention Center*                                | 495         | 508         | 511         | 526         | 555         |
| Airport Revenue                                   | 960         | 907         | 868         | 767         | 437         |
| Revenue Bond Coverage:                            |             |             |             |             |             |
| Dallas Water Utilities (2)                        | 1.54        | 1.81        | 1.85        | 1.76        | 1.43        |
| Convention Center* (3)                            | 2           | 1.7         | 1.7         | 1.6         | 1.7         |
| Airport Revenue                                   | N/A         | N/A         | N/A         | N/A         | 10.5        |

## Key Observations:

- (1) Total Capital Assets, net increased annually between 2009-2015
- (2) Revenue Bond Coverage for Dallas Water Utilities increased in 2012, remained relatively consistent through 2014 and then decreased in 2015.
- (3) Revenue Bond Coverage for Convention Center has remained consistent from 2009-2014, with a slight increase in 2015
- (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. Since, income has increased from 2012-2015

\*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:

|  | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2009</u> |
|--|-------------|-------------|-------------|-------------|-------------|
| Internal Service Fund Balance (deficit): (1)                     |             |             |             |             |             |
| Risk Funds fund deficit  | \$ (51.5)   | \$ (42.0)   | \$ (52.2)   | \$ (56.0)   | \$ (94.7)   |
| Risk Funds claims total liability                                | 68.7        | 66.2        | 70.1        | 64.9        | 93.8        |
| Risk Funds fund deficit as a % of total general fund balance (2) | 25.74%      | 23.24%      | 33.25%      | 37.56%      | 91.10%      |
| Net Other Post Employment Benefit "OPEB" obligation (3)          | \$ 241.50   | \$ 229.50   | \$ 207.50   | \$ 170.10   | \$ 73.20    |
| Landfill closure and post-closure liability (4)                  | \$ 35.80    | \$ 34.57    | \$ 33.20    | \$ 32.00    | \$ 31.70    |
| Net Pension Liability (5)  | \$ 5,601.61 | \$ 5,091.63 |             |             |             |

## 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 2009-2014, and increased in 2015
- (3) The net OPEB obligation has increased annually 2009-2015, 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 2009-2015
- (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. Beginning net assets were restated to show the affect of this in FY 2014.

# Average Issuance Days of CAFR

|    | City                      | State        | Population | City Year End | Opinion Issue Date | Auditor                 | Days to Issue |
|----|---------------------------|--------------|------------|---------------|--------------------|-------------------------|---------------|
| 1  | New York City             | New York     | 8,175,133  | 6/30/2015     | 10/29/2015         | Deloitte                | 121           |
| 2  | Los Angeles               | California   | 3,792,621  | 6/30/2014     | 3/31/2015          | MGO                     | 274           |
| 3  | Chicago                   | Illinois     | 2,695,598  | 12/31/2014    | 6/30/2015          | Deloitte                | 181           |
| 4  | Houston                   | Texas        | 2,099,451  | 6/30/2015     | 12/2/2015          | Finley, White & Co.     | 155           |
| 5  | Philadelphia              | Pennsylvania | 1,526,006  | 6/30/2015     | 2/24/2016          | Gerald V. Miciulla, CPA | 239           |
| 6  | Phoenix                   | Arizona      | 1,445,632  | 6/30/2015     | 12/18/2015         | Grant Thornton          | 171           |
| 7  | San Antonio               | Texas        | 1,327,407  | 9/30/2015     | 3/2/2016           | PS & Co.                | 154           |
| 8  | San Diego                 | California   | 1,307,402  | 6/30/2015     | 12/8/2015          | MGO                     | 161           |
| 9  | Dallas                    | Texas        | 1,197,816  | 9/30/2015     | 4/28/2016          | Grant Thornton          | 211           |
| 10 | San Jose                  | California   | 945,942    | 6/30/2015     | 11/16/2015         | MGO                     | 139           |
| 11 | Jacksonville              | Florida      | 821,784    | 9/30/2014     | 4/30/2015          | McGladrey               | 212           |
| 12 | Indianapolis              | Indiana      | 820,445    | 12/31/2014    | 6/29/2015          | BKD                     | 180           |
| 13 | San Francisco             | California   | 805,235    | 6/30/2015     | 11/23/2015         | MGO                     | 146           |
| 14 | Austin                    | Texas        | 790,390    | 9/30/2015     | 3/28/2016          | Deloitte                | 180           |
| 15 | Columbus                  | Ohio         | 787,033    | 12/31/2014    | 3/24/2015          | Plante & Moran, PLLC    | 83            |
|    | Other                     |              |            |               |                    |                         |               |
| 16 | Ft. Worth                 | Texas        |            | 9/30/2015     | 3/25/2016          | Deloitte                | 177           |
|    | Dallas                    |              | 211        |               |                    |                         |               |
|    | Average TX (Excl. Dallas) |              | 167        |               |                    |                         |               |
|    | Average US (Excl. Dallas) |              | 172        |               |                    |                         |               |

*(Population data obtained from latest 2010 Census Bureau information)*

*(Most recent CAFR data utilized via respective cities websites)*

## Technical Update - Adopted in Current Year

- GASB Statement No. 68 - "Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27"
  - Net pension liability to be recognized-unfunded obligation
  - The implementation resulted in a restatement of the City's net position at September 30, 2014 for the recording of the beginning net pension liability and the beginning deferred outflows of resources for contributions made after the measurement date
  - Effective for 9/30/2015 year-ends
  
- GASB Statement No. 71 - "Pension Transition for Contributions Made Subsequent to the Measurement Date an Amendment to GASB Statement No. 68"
  - The objective is to address an issue regarding application of the transition provision of Statement No. 68.
  - The implementation resulted in a restatement of the City's net position at September 30, 2014 for the recording of the beginning net pension liability and the beginning deferred outflows of resources for contributions made after the measurement date
  - Effective for 9/30/2015 year-ends
  
- GASB Statement No. 69 - "Government Combinations and Disposals of Government Operations"
  - The statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations, which includes a variety of transactions referred to as mergers, acquisitions and transfers of operations
  - The implementation of this statement did not result in any changes to the City's financial statements
  - Effective for 9/30/2015 year-ends

# Technical Update - Future Implementation

- GASB Statement No. 72 - "Fair Value Measurement and Application"
  - Guidance for determining a fair value measurement for financial reporting purposes.
  - Effective for 9/30/2016 year-ends
  
- GASB Statement No. 73 - "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68"
  - Objective is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability.
  - Effective for 9/30/2016 year-ends
  
- GASB Statement No. 74 - "Financial Reporting for Postemployment Benefit Plans Other than Pension Plans."
  - Objective is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.
  - Effective for 9/30/17 year-ends.

## Technical Update - Future Implementation (continued)

- GASB Statement No. 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"
  - Objective is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB).
  - Effective for 9/30/2018 year-ends
  
- GASB Statement No. 76 - "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments"
  - Objective is to identify the hierarchy of GAAP.
  - Effective for 9/30/16 year-ends.
  
- GASB Statement No. 77 - "Tax Abatement Disclosures"
  - Guidance requires governments that enter into tax abatement agreements to disclose the information about the agreements including description, amount, and commitments made by the government, other than to abate taxes, as part of the tax abatement agreement.
  - Effective for 9/30/17 year-ends.

## Technical Update - Future Implementation (continued)

- GASB Statement No. 78 - "Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans"
  - Objective is to establish requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions
  - Effective for 9/30/2017 year-ends
  
- GASB Statement No. 79 - "Certain External Investment Pools and Pool Participants"
  - Objective is to establish additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools
  - Effective for 9/30/16 year-ends.
  
- GASB Statement No. 80 - "Blending Requirements for Criteria Component Unit-An Amendment of GASB Statement No. 14"
  - Requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member
  - Effective for 9/30/17 year-ends.

## Technical Update - Future Implementation (continued)

- GASB Statement No. 81 - "Irrevocable Split-Interest Agreements"
  - Objective is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement
  - Effective for 9/30/2018 year-ends
  
- GASB Statement No. 82 - "Pension Issues"
  - The Statement will address issues regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and treatment of deviations from the guidance, and the classification of payments made by employers to satisfy employee contribution requirements
  - Effective for 9/30/17 year-ends.

# 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 Web site
- Can be accessed from our external Web site  
([https://secure.ethicspoint.com/domain/en/report\\_customer.asp?clientid=15191](https://secure.ethicspoint.com/domain/en/report_customer.asp?clientid=15191))

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



# Questions & Answers



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.



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