

Memorandum



CITY OF DALLAS

DATE September 11, 2017

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 2016 Audit**

On Monday, September 18, 2017, Grant Thornton LLP will brief the Government Performance & Financial Management Committee on Communications Related to the FY 2016 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

Honorable Mayor and Members of 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



Grant Thornton

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

Communications Related to
the FY 2016 Audit

September 18, 2017

Attendees:

Dan Barron – Partner

Natalie Wood – Senior Manager

Kirt Seale – Principal



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 under US Generally Accepted Auditing Standards (GAAS) and *Government Auditing Standards* of the financial statements prepared by management, with your oversight;
- 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 Uniform Grants Guidance 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; and
- Informing us about other matters that are relevant to our audit, such as:
 - Entity strategies and related business risks that may result in heightened risks of material misstatement;
 - Matters warranting particular audit attention;
 - Significant communications with regulators;
 - Matters related to the effectiveness of internal control and your oversight responsibilities; and
 - 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;
- 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; and
- Providing us with written representations.

Materiality

Materiality is the magnitude of an omission or misstatement that likely influences a reasonable person's judgment. It is ordinarily evaluated against relevant financial statement benchmarks.

- 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 is the appropriate benchmark for the Federal and State Single Audit.

Financial statement items greater than materiality are within our audit scope. Other accounts or classes of transactions less than materiality may be in our scope if qualitative risk factors are present (for example, related party relationships or significant unusual transactions).

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 liabilities, workers compensation liabilities, pension liabilities, and other postemployment benefits liabilities and disclosures.

M/WBE Subcontractors

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

Significant Risks

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 Airport Revenues	Existence and occurrence
Capital Assets	Valuation-gross and valuation-net
Investments	Valuation-net
Net pension liability and expense, actuarial information related to self-insurance (IBNR), workers compensation liabilities and OPEB Plans	Presentation and disclosure Completeness and accuracy
Compliance and controls related to federal and state single audit major programs	Completeness and accuracy of SEFA and SESA
Debt compliance and ratios	Compliance with debt covenants



Significant Risks (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
- Four IT control observations were identified during this year's IT testing, and one was successfully and completely remediated/fixed prior to the end of the financial year.
 - End users with security administration access in SAP
 - End users with privileged access to batch administration in SAP
 - Inappropriate access to promote in SAP
 - The remediation observation involved enabled SAP accounts with privileged access for terminated employees.

Reports Issued

Financial statement audits:

- Comprehensive annual financial report (CAFR)
- Single audits
 - Federal (Uniform Grants Guidance)
 - 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

Results of Financial Statement Audits

- Comprehensive Annual Financial Report (CAFR)
 - Unmodified "clean" opinions
 - Includes GFOA Certificate of Achievement for 2015 CAFR. The City has received this award for ten years in a row.
 - No scope limitations
 - Continued open and effective communication with management
- Federal Single Audit Report
 - Unmodified opinions for all programs
 - Noncompliance noted for one program
 - Material weakness noted for one program
- State Single Audit Report
 - Unmodified opinions for all programs
 - Control deficiency and noncompliance noted for one program

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 opinion 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, 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.



Federal and State Major Programs

Federal Programs Audited	State Programs Audited
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	Commercial Auto Theft Interdiction Squad
Community Development Block Grants (CDBG)	Katy Trail VI from Ellsworth Street to Worcola Street
Continuum of Care Program	Dallas CBD car Circulator Programs
Confiscated Monies	



Single Audit-Current 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)
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)

Single Audit-Current Year Findings, continued

Source	Program	Award #	Finding	Severity	Status
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	New finding (State 2016-001)



Single Audits- Status of Prior Year Findings

Source	Program	Award #	Finding	Severity	Status
Federal	Continuum of Care	TX0236L6T001305 TX0050L6T001306 TX0072L6T001306	<p>Special Test: Reasonable Rental Rates - based on testing performed, we noted one (1) of sixty (60) client 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 client's calculation and determination of monthly rent amount amounts to be paid on the client's behalf.</p> <p>Eligibility, Special Test: Housing Quality Standards, Special Test: Reasonable Rental Rates - based on testing performed, we noted that there was a certain lack of sufficient review of client files to ensure accuracy and completeness of client files and the information included in the files to support the provision of services.</p>	Material weakness and noncompliance	Repeat findings (2015-001; 2015-002)
State	None				

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.



Other Required Communications (continued)

Significant difficulties encountered during the audit

We encountered no significant difficulties, including:

- Significant delays in providing or unwillingness to provide information, including matters related to going concern;
- Unnecessarily brief time to complete the audit;
- Unavailability of expected information or City personnel, including access to information at a component unit;
- Management imposed restrictions, including those related to the use of external confirmations, the inability to perform procedures on required supplementary information, or restrictions related to a group audit; and
- 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; and
- Landfill closure and post-closure.

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

Quality of Accounting Practices and Alternative Treatments (continued)

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 2016 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, and DDDA

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

(For Federal and State Single Audit) Report on Compliance Related To Major Programs (Uniform Guidance and State of Texas Single Audit Circular) and on Internal Control Over Compliance

(For Federal 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 (Government Performance and Financial Management 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

Financial Trends



Financial Highlights – Summary (In Millions)

<u>Government-Wide:</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Governmental:					
Change in net position (deficit)	\$ (742)	\$ 256	\$ 81	\$ 83	\$ 18
Total net position	(3,353)	(2,679)	2,245	2,163	2,081
Ending unrestricted net position (deficit)	(6,164)	(5,393)	(306)	(294)	(280)
Capital assets, net	3,829	3,735	3,596	3,413	3,290
Business-type:					
Change in net position (deficit)	\$ (4)	\$ 93	\$ 114	\$ 119	\$ 91
Total net position	3,208	3,280	3,357	3,243	3,154
Ending unrestricted net position (deficit)	1,946	239	363	293	291
Capital assets, net	6,468	6,057	5,808	5,592	5,282
<u>Governmental:</u>					
Tax Rate (per \$100 valuation)					
Total	\$ 0.7970	\$ 0.7970	\$ 0.7970	\$ 0.7970	\$ 0.7970
General Fund	0.5646	0.5646	0.5601	0.5439	0.5379
Debt Service	0.2324	0.2324	0.2369	0.2531	0.2591
Taxable Assessed Valuation (in billions)	\$ 100.3	\$ 93.1	\$ 87.3	\$ 83.7	\$ 82.0
Total General Obligation Bonds	\$ 1,485.0	\$ 1,406.0	\$ 1,235.8	\$ 1,429.0	\$ 1,292.0
Debt Service expenditures as a percentage of non-capital expenditures	16.6%	16.3%	15.1%	15.9%	17.5%
General Fund Balance:					
Total	\$ 191.0	\$ 200.1	\$ 180.7	\$ 157.0	\$ 149.0
Unreserved/Unassigned	\$ 153.7	\$ 141.6	\$ 129.2	\$ 120.8	\$ 101.2
General Fund Expenditures	\$ 1,122.7	\$ 1,138.8	\$ 1,091.9	\$ 1,022.5	\$ 974.6
Unreserved/Unassigned General Fund balance as a percentage of expenditures	13.70%	12.40%	11.84%	11.81%	10.38%
Excess (deficiency) of revenues over (under) expenditures	\$ (1.6)	\$ 11.4	\$ 3.6	\$ 0.5	\$ 22.0
Transfers in (out) of General Fund, net	\$ 6.2	\$ 7.5	\$ 16.1	\$ 2.3	\$ 0.1

Financial Highlights – Summary (continued)

<u>Business-Type:</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Income (loss) before transfers and contributions:					
Dallas Water Utilities	\$ 24.9	\$ 77.7	\$ 137.3	\$ 115.8	\$ 100.6
Convention Center*	4.8	6.9	-	(7.3)	(4.5)
Airport Revenue	(11.0)	7.3	(6.5)	(5.3)	13.2
Total Capital Assets, net					
Dallas Water Utilities	\$ 4,889	\$ 4,601	\$ 4,391	\$ 4,211	\$ 3,987
Convention Center*	479	495	508	511	526
Airport Revenue	1,059	960	907	868	767
Ending net position:					
Dallas Water Utilities	\$ 2,469	\$ 2,450	\$ 2,512	\$ 2,393	\$ 2,285
Convention Center*	265	266	267	276	285
Airport Revenue	568	558	552	553	538
Revenue Bond Coverage:					
Dallas Water Utilities (minimum requirement 1.25)	1.74	1.54	1.81	1.85	1.73
Convention Center*	1.8	2	1.7	1.7	1.6
Airport Revenue	N/A	N/A	N/A	N/A	N/A
Internal Service Fund Balance (deficit):					
Risk Funds fund deficit	\$ (64.2)	\$ (51.5)	\$ (42.0)	\$ (52.2)	\$ (56.0)
Risk Funds claims total liability	79.4	68.7	66.2	70.1	64.9
Risk Funds fund deficit as a % of total general fund balance	Calculated 33.59%	25.74%	23.24%	33.25%	37.56%
Net Other Post Employment Benefit "OPEB" obligation	\$ 252.2	\$ 241.5	\$ 229.5	\$ 207.5	\$ 170.1
Landfill closure and post-closure liability	\$ 30.9	\$ 30.3	\$ 34.6	\$ 33.2	\$ 32.0

*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

<u>Government-Wide:</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
<u>Governmental:</u>					
Change in net position (deficit)	\$ (742)	\$ 256	\$ 81	\$ 83	\$ 18
Total net position	(3,353)	(2,679)	2,245	2,163	2,081
Ending unrestricted net position (deficit) (1)	(6,164)	(5,393)	(306)	(294)	(280)
Capital assets, net (3)	3,829	3,735	3,596	3,413	3,290
<u>Business-type:</u>					
Change in net position	\$ (4)	\$ 93	\$ 114	\$ 119	\$ 91
Total net position	3,208	3,280	3,357	3,243	3,154
Ending unrestricted net position (2)	1,946	239	363	293	291
Capital assets, net (3)	6,468	6,057	5,808	5,592	5,282

Key Observations:

- (1) The "Governmental" unrestricted net (deficit) position increased annually from 2012-2016
- (2) The "Business-type" unrestricted net position increased annually from 2012-2014, but decreased in 2015 and 2016
- (3) "Capital Assets, net balances (both "Governmental" and "Business-type") have increased annually from 2012-2016

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

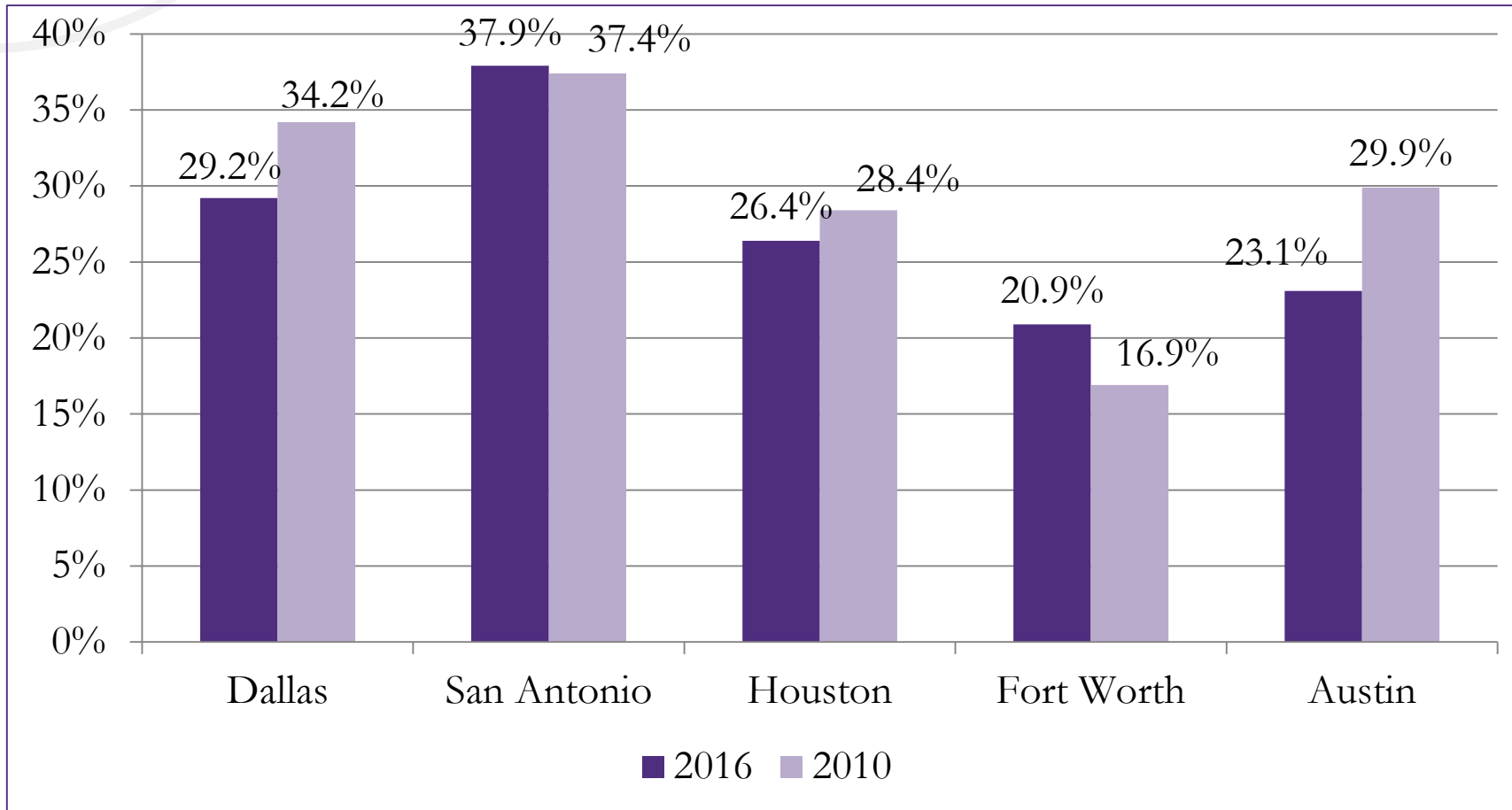
Financial Trends:

<u>Governmental:</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Tax Rate (per \$100 valuation)					
Total (1)	\$ 0.7970	\$ 0.7970	\$ 0.7970	\$ 0.7970	\$ 0.7970
General Fund	0.5646	0.5646	0.5601	0.5439	0.5379
Debt Service (2)	0.2324	0.2324	0.2369	0.2531	0.2591
Taxable Assessed Valuation (in billions) (3)	\$ 100.3	\$ 93.1	\$ 87.3	\$ 83.7	\$ 82.0
Total General Obligation Debt (4)	\$ 1,492.0	\$ 1,559	\$ 1,236	\$ 1,353	\$ 1,292
Debt Service expenditures as a percentage of non-capital expenditures (5)	16.60%	16.34%	15.10%	15.88%	17.50%

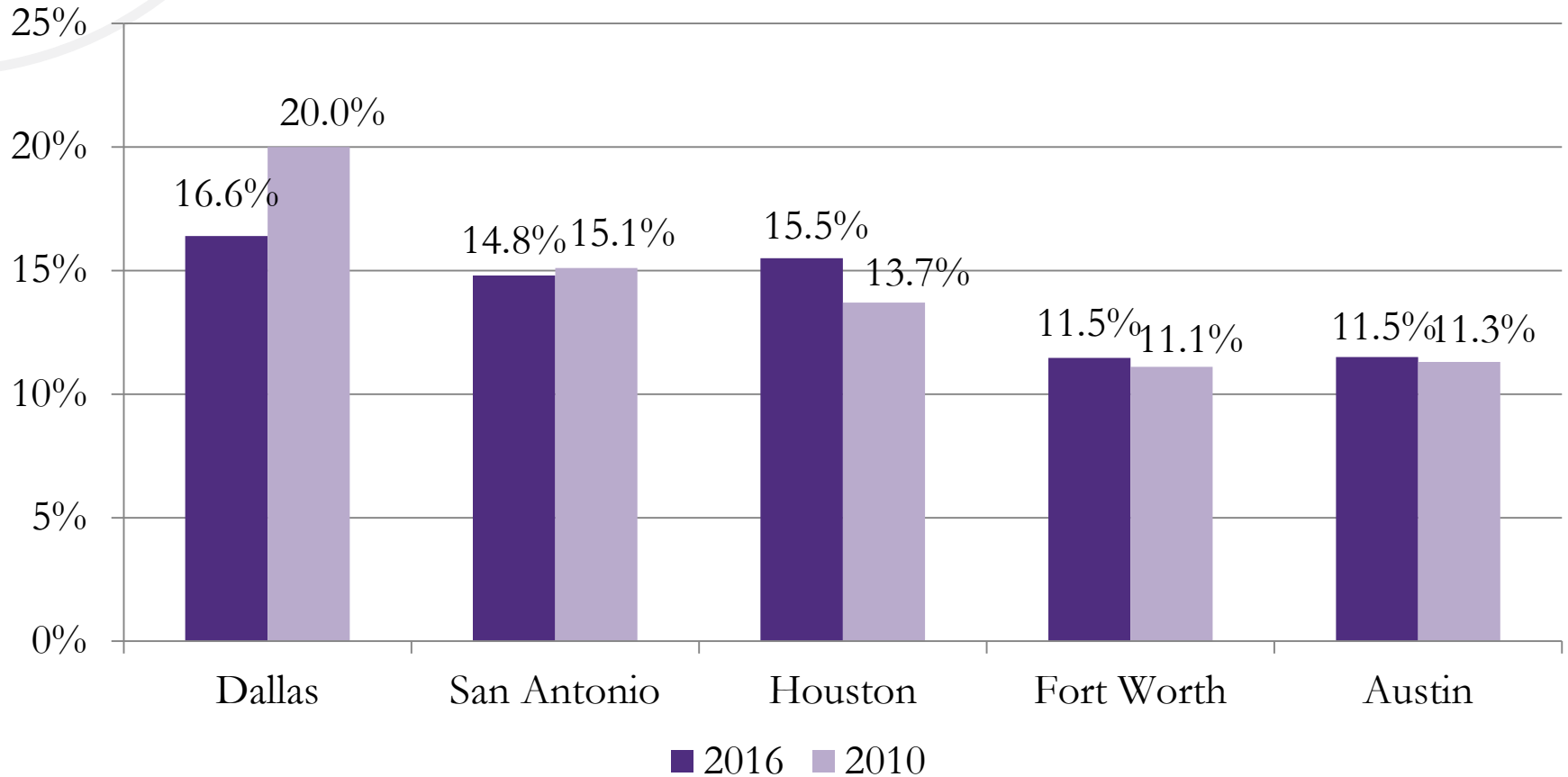
Key Observations:

- (1) The total tax rate remained unchanged from 2012-2016
- (2) The tax rate component for debt service decreased annually from 2013-2015, and stayed flat in 2016
- (3) The taxable assessed valuation increased annually from 2012-2016
- (4) Total General Obligation debt decreased annually increased in 2013, decreased in 2014, increased in 2015, and decreased in 2016
- (5) Debt service expenditures as a % of non-capital expenditures decreased from 2012-2014, increased in 2015 and 2016

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

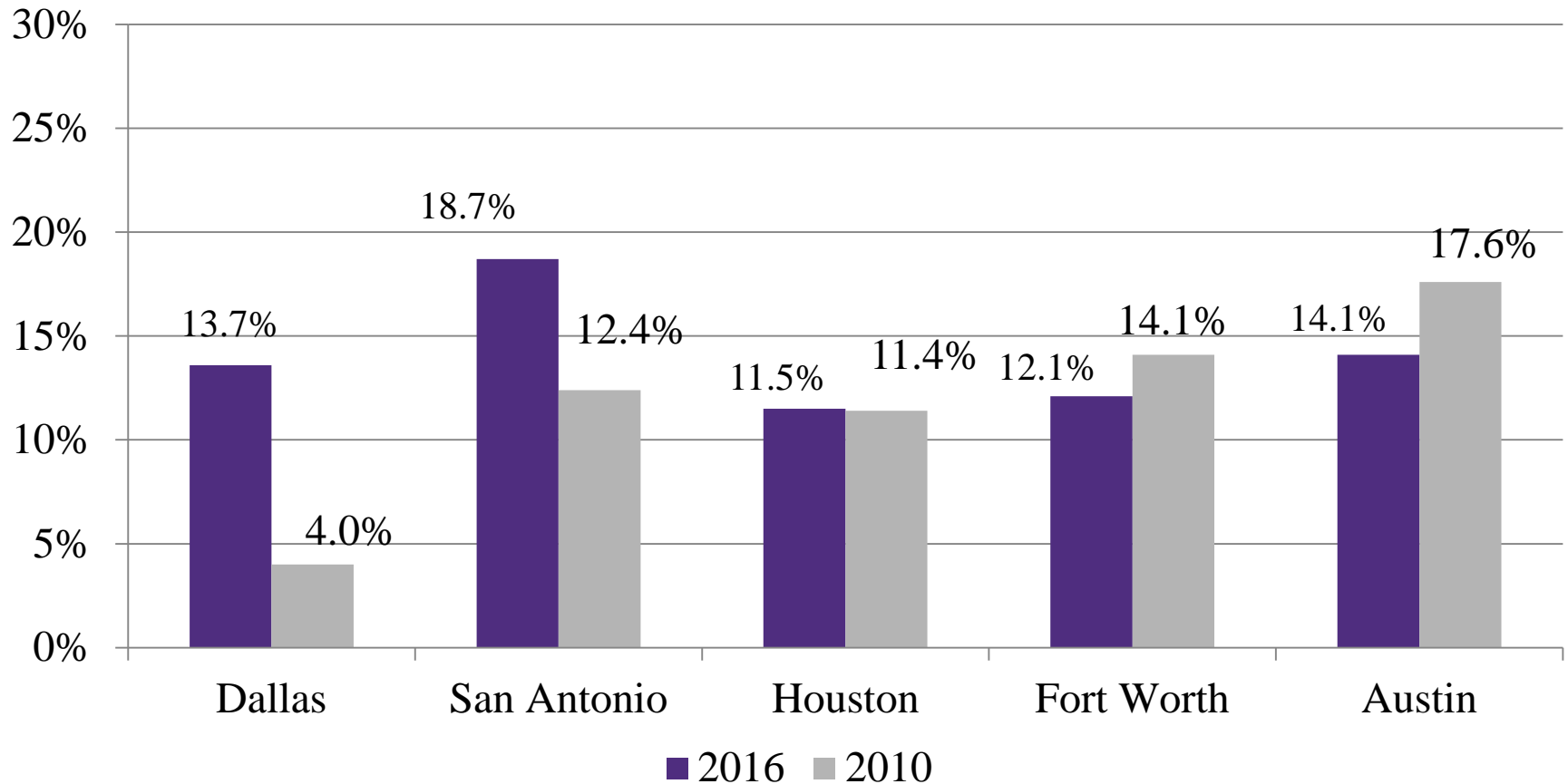
Financial Trends:

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
General Fund Balance: (1)					
Total	\$ 191.0	\$ 200.1	\$ 180.7	\$ 157.0	\$ 149.0
Unreserved/Unassigned	\$ 153.7	\$ 141.6	\$ 129.2	\$ 120.8	\$ 101.2
General Fund Expenditures (2)	\$ 1,122.7	\$ 1,138.8	\$ 1,091.9	\$ 1,022.5	\$ 974.6
Unreserved/Unassigned General Fund balance as a percentage of expenditures (1)	13.70%	12.40%	11.84%	11.81%	10.38%
Excess (deficiency) of revenues over (under) expenditures (3)	\$ (1.6)	\$ 11.4	\$ 3.6	\$ 0.5	\$ 22.0
Transfers in (out) of General Fund, net (4)	\$ 6.2	\$ 7.5	\$ 16.1	\$ 2.3	\$ 0.1

Key Observations:

- (1) The Total General Fund Balance increased annually from 2012 to 2015, and decreased in 2016. The Unreserved/Unassigned General Fund Balance increased annually from 2012 to 2016. The "unreserved/unassigned general fund balance as a percentage of expenditures" increased annually from 2012 to 2016.
- (2) General Fund expenditures have remained relatively consistent from 2012-2016
- (3) Revenues have been in excess of expenditures from 2012-2016
- (4) Transfers have been transfers -in from 2012 through 2016

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>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Income (loss) before transfers and contributions:					
Dallas Water Utilities (4)	\$ 24.9	\$ 77.0	\$ 137.3	\$ 115.8	\$ 100.6
Convention Center*	4.8	6.9	-	(7.3)	(4.5)
Airport Revenue	(11.0)	7.3	(6.5)	(5.3)	13.2
Total Capital Assets, net (1)					
Dallas Water Utilities	4,889	\$ 4,601	\$ 4,391	\$ 4,211	\$ 3,987
Convention Center*	479	495	508	511	526
Airport Revenue	1,059	960	907	868	767
Revenue Bond Coverage:					
Dallas Water Utilities (2)	1.74	1.54	1.81	1.85	1.73
Convention Center* (3)	1.8	2.0	1.7	1.7	1.6
Airport Revenue	N/A	N/A	N/A	N/A	N/A

Key Observations:

- (1) Total Capital Assets, net increased annually between 2012-2016
- (2) Revenue Bond Coverage for Dallas Water Utilities remained relatively consistent from 2012 to 2016
- (3) Revenue Bond Coverage for Convention Center has remained consistent from 2012-2016
- (4) Dallas Water Utilities net income has decreased since 2014

*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>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Internal Service Fund Balance (deficit): (1)					
Risk Funds fund deficit	\$ (64.2)	\$ (51.5)	\$ (42.0)	\$ (52.2)	\$ (56.0)
Risk Funds claims total liability	79.4	68.7	66.2	70.1	64.9
Risk Funds fund deficit as a % of total general fund balance (2)	33.59%	25.74%	23.24%	33.25%	37.56%
Net Other Post Employment Benefit "OPEB" obligation (3)	\$ 252.20	\$ 241.50	\$ 229.50	\$ 207.50	\$ 170.10
Landfill closure and post-closure liability (4)	\$ 30.90	\$ 30.60	\$ 34.57	\$ 33.20	\$ 32.00
Net Pension Liability (5)	\$ 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 2012-2014, and increased in 2015 and 2016
- (3) The net OPEB obligation has increased annually 2012-2016, 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 2012-2014, and decreased in 2015, and remained consistent in 2016
- (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

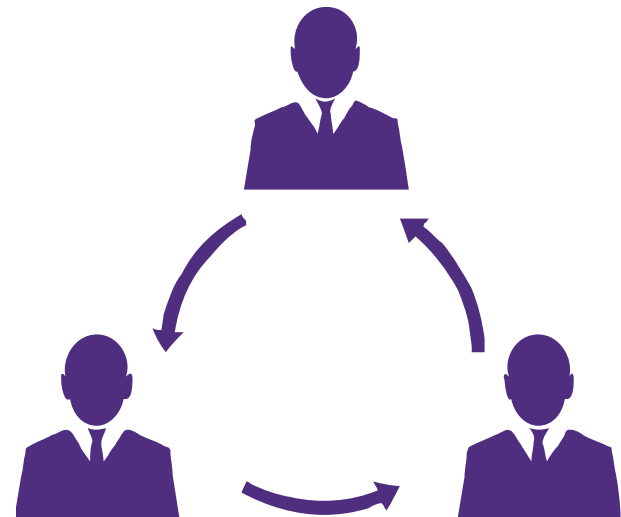
- Can be found on our internal website
- Can be accessed from our external website
(https://secure.ethicspoint.com/domain/en/report_custom.asp?clientid=15191)

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

Grant Thornton's Client Service Cycle

Grant Thornton's Client Service Cycle is our model for delivering high quality, personalized service. Our commitment to this recurring process helps us ascertain that you receive the full benefits of working with us, year after year.

- What issues/challenges are most important to you and your organization?
- What are your expectations for this project?
- How would you rate the team's overall service delivery?
- How can your Grant Thornton team bring additional value to your organization?
- Would you refer Grant Thornton to a friend or colleague?



Technical Update - Adopted in Current Year

- 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. 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. 79 - "Certain External Investment Pool 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.

No changes to significant accounting policies in the current year. Policies continue to be appropriate and consistent in their application.

Technical Update - Future Implementation

- 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 9/30/2017 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.

No changes to significant accounting policies in the current year. Policies continue to be appropriate and consistent in their application.

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. 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.

No changes to significant accounting policies in the current year. Policies continue to be appropriate and consistent in their application.

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. 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.

No changes to significant accounting policies in the current year. Policies continue to be appropriate and consistent in their application.

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.

- GASB Statement No. 83 - "Certain Asset Retirement Obligations"
 - The Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs).
 - Effective for 9/30/19 year-ends.

No changes to significant accounting policies in the current year. Policies continue to be appropriate and consistent in their application.

Technical Update - Future Implementation (continued)

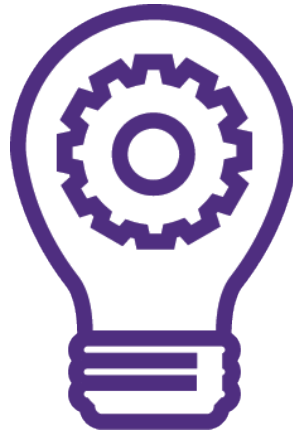
- GASB Statement No. 84 - "Fiduciary Activities"
 - Objective is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
 - Effective for 9/30/2020 year-ends

- GASB Statement No. 85 - "Omnibus 2017"
 - The Statement will address several different accounting and financial reporting issues identified by GASB during the implementation and application of certain GASB pronouncements.
 - Effective for 9/30/18 year-ends.

- GASB Statement No. 86 - "Certain Debt Extinguishment Issues"
 - The Statement improves consistency in accounting and financial reporting for in-substance defeasance of debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished, and notes to the financial statements for debt that is defeased in-substance.
 - Effective for 9/30/18 year-ends.

No changes to significant accounting policies in the current year. Policies continue to be appropriate and consistent in their application.

Questions and Answers



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.



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