



2018 Presentation to the City Council

The City of Farmers Branch, Texas
Communications Related to the Audit
January 22, 2019

Attendees:

Ben Kohnle – Partner

Natalie Wood – Senior Manager



Our Responsibilities

We are responsible for:

Performing an audit under US GAAS 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 GAAP.

Forming and expressing an opinion about whether certain supplementary information 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

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 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:
 - City 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
 - Your views regarding our current communications and your actions regarding previous communications

Management is responsible for:

- Preparing and fairly presenting the financial statements 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
- 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 benchmark.

- We believe that total assets/ or total revenue (by opinion unit) is the appropriate benchmark for the City.

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).

Significant risks and other areas of focus

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

Significant area of focus
Water and Sewer Revenues*
Other Revenues*
Net Pension Liability and Total OPEB Liability*
Governance, Fraud inquiries and procedures**
Property Tax Revenue, Sales Tax Revenue **
Investments/Treasury**
Payroll and related liabilities, Operating expenses and related payables, Debt, and Net Position**

*Represents significant risk for the audit

** Represents other areas of focus

Results of Financial Statement Audit

- Unmodified "clean" opinions
- No scope limitations
- No unresolved audit issues
- Open and effective communication with management
- No passed adjusting or adjusting entries recorded as a result of the audit

Financial Statement Highlights

Governmental

	<u>FY2018</u>	<u>FY2017</u>
Sales Tax Revenue (in thousands)	\$ 14,618	\$ 13,936
Property Tax Rate (per \$100 valuation):		
Total	\$ 0.6023	\$ 0.6023
General Fund	0.5177	0.5153
Debt Service	0.0846	0.0870
Property Tax Revenue (in thousands)		
Total	\$ 30,017	\$ 28,417
General Fund	25,710	24,164
Debt Service	4,307	4,253
Assessed Valuation (in millions)	5,102	4,853
General Fund balance		
Total	\$ 20,076	\$ 14,330
Unassigned	14,422	10,184
Unassigned General Fund balance as percentage of expenditures plus other financing sources	27%	20%
Net Bonded Debt to Assessed Value	1.16%	0.77%
Debt Service expenditures to General Fund expenditures	8.17%	8.17%
Hotel/Motel Fund Tax Revenue (in thousands)	\$ 2,850	\$ 2,893

Financial Statement Highlights

Proprietary

	<u>FY2018</u>	<u>FY2017</u>
Water and Sewer Fund (excludes non-bond utility & PID) (in thousands)		
Operating income before depreciation and transfers	\$ 9,277	\$ 6,394
Depreciation	(2,352)	(2,340)
Nonoperating revenue (expense), net	(7)	9
Capital contributions	3,369	662
Transfers, net	(6,896)	(4,677)
Change in net position	3,391	48
Ending net position, restated beg bal 2018 (\$326)	41,855	38,790

Health Claims Fund

Ending net position	\$ 338	\$ 820
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Government-Wide

Governmental change in net position	\$ 12,775	\$ 9,821
Governmental ending net position, restated beg bal 2018 (\$2,877)	93,254	83,356
Business-type change in net position	6,983	962
Business-type ending net position, restated beg bal 2018 (\$326)	59,621	52,964

Supplemental Information

Texas Municipal Retirement System (TMRS) Unfunded Actuarial Accrued Liability (UAAL)	\$ 30,870	\$ 31,178
Total Other Post Employment Benefits (OPEB) Liability	5,410	5,420

Other Required Communications

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

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



Other Required Communications

(continued)

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



Quality of Accounting Practices

Accounting policies	Accounting principles used by the City are considered appropriate in all material respects. The City adopted GASB 75 in FY18. Under this standard, the new accounting and reporting for the Total OPEB liability is now recorded for the City.
Accounting estimates	<ul style="list-style-type: none">• Allowance for receivables• Accruals for self-insurance liabilities• Net pension and other post-employment benefit amounts and related disclosures• Landfill liability• Depreciation of capital assets <p>We have performed tests to satisfy ourselves that these amounts are materially correct.</p>
Disclosures	<ul style="list-style-type: none">• Issues involved and judgments made in formulating particularly sensitive 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.



Use of the Work of Others

Specialists

Gabriel Roeder Smith – performed pension and OPEB actuarial analysis for TMRS

KPMG – evaluated TMRS internal controls

Aon – calculated workers' compensation liability

Weaver Consultants Group – estimated landfill liability

McGriff, Seibels & Williams – performed insurance IBNR analysis

Other Firm Personnel or Third Parties

Grant Thornton Pricing Group – reviewed investment valuations

Grant Thornton Compensation & Benefits Consulting Group – evaluated assumptions utilized in workers' compensation, OPEB, and pension actuarial valuations

Recently Issued Guidance

- GASB Statement No. 83 - "Certain Asset Retirement Obligations"
 - This Statement addresses accounting and financial reporting for certain asset retirement obligations.
 - Effective for 9/30/19 year-ends
- GASB Statement No. 84 - "Fiduciary Activities"
 - This statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
 - Effective for 9/30/19 year-ends
- GASB Statement No. 87 - "Leases"
 - This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as deferred inflows of resources or deferred outflows of resources based on the payment provisions of the contract.
 - Effective for 9/30/21 year-ends

Recently Issued Guidance

- GASB Statement No. 88 - "Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements"
 - This primary objective of the statement is to improve information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements.
 - Effective for 9/30/19 year-ends
- GASB Statement No. 89 - "Accounting for Interest Cost Incurred before the End of a Construction Period"
 - This statement requires that interest cost incurred before the end of a construction period be recognized as an expense of the period.
 - Effective for 9/30/21 year-ends
- GASB Statement No.90 - "Majority Equity Interests-an amendment of GASB Statements No.14 and No.61"
 - The primary objective of this statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization.
 - Effective for 9/30/20 year-ends

This communication is intended solely for the information and use of management and the City Council of the City of Farmers Branch, Texas and is not intended to be and should not be used by anyone other than these specified parties.



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