

Memorandum



CITY OF DALLAS

DATE May 17, 2013

TO Honorable Members of the Budget, Finance & Audit Committee: Jerry Allen (Chair), Tennell Atkins (Vice Chair), Monica R. Alonzo, Scott Griggs, Ann Margolin

SUBJECT Communications Related to the Fiscal Year 2012 Audit

Attached is the Communications Related to the Fiscal Year 2012 Audit briefing. This briefing will be presented by Ben Kohnle of Grant Thornton, LLP.

Please let me know if you need additional information.

A handwritten signature in blue ink that reads "Jeanne Chipperfield".

Jeanne Chipperfield
Chief Financial Officer

Attachment

c: Honorable Mayor and Members of the City Council
Mary K. Suhm, City Manager
Rosa A. Rios, City Secretary
Thomas P. Perkins, Jr., City Attorney
Daniel F. Solis, Administrative Judge Municipal Court
Craig D. Kinton, City Auditor

A.C. Gonzalez, First Assistant City Manager
Ryan S. Evans, Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Forest E. Turner, Assistant City Manager
Joey Zapata, Assistant City Manager
Stephanie Cooper, Assistant to the City Manager



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

Communications Related to the FY 2012 Audit

May 20, 2013

Attendees:

Ben Kohnle –Partner

Dan Barron–Partner

Kirt Seale – Principal

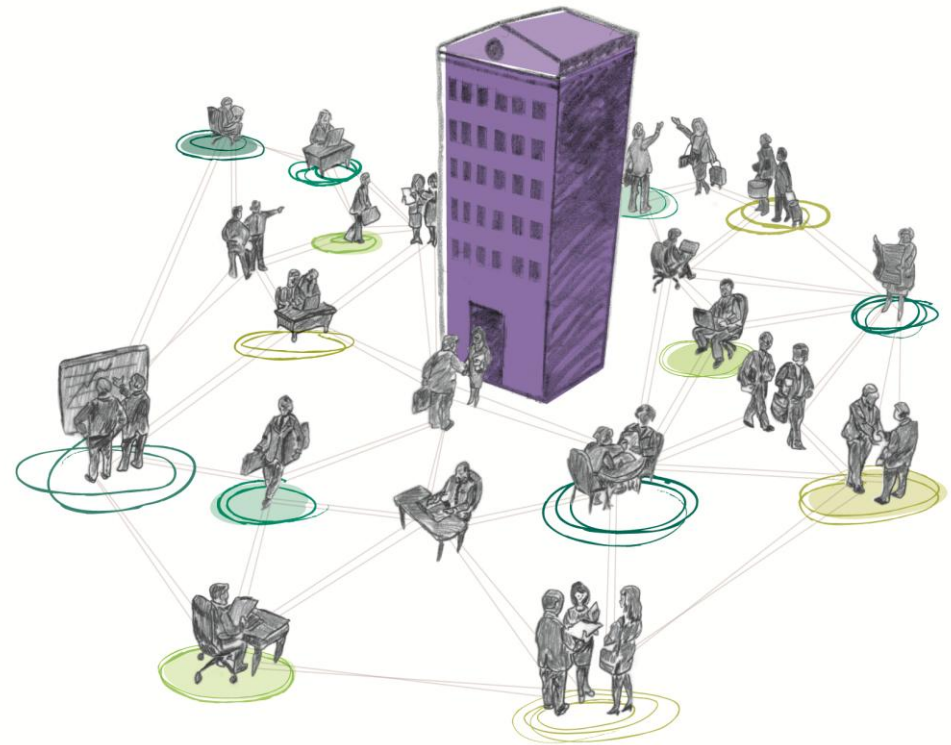


Our values are CLEARR

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 ensure that our people make correct and appropriate choices.



Responsibilities



Our responsibilities

We are responsible for:

- **Performing an audit under US Generally Accepted Auditing Standards and Government Auditing Standards**
- **Performing an audit in accordance with OMB Circular A-133 and the State of Texas Single Audit Circular and issuing reports on compliance and controls over financial reporting and major federal and state programs.**
- **Forming and expressing opinions about whether the financial statements prepared by management, with your oversight:**
 - are materially correct
 - are fairly presented
 - conform with US GAAP
- **Forming and expressing an opinion about whether certain required 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**
- **Communicating specific matters to you**

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.



Those Charged with Governance and Management responsibilities

Those Charged with Governance

Those charged with governance are responsible for:

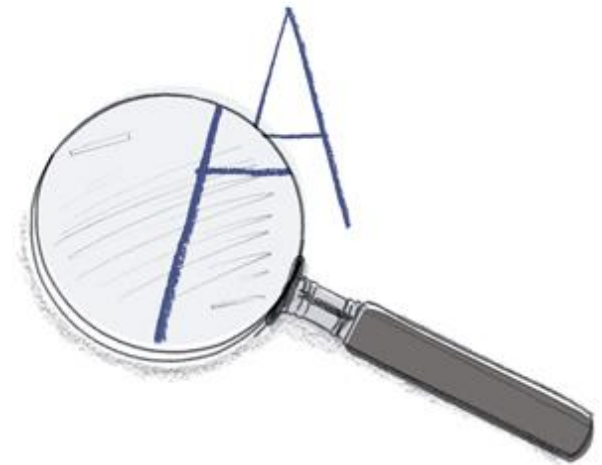
- **Overseeing the financial reporting process**
- **Setting a positive tone at the top and challenging the City's activities in the financial arena**
- **Discussing significant accounting and internal control matters with management**
- **Informing us about fraud or suspected fraud, including its views about fraud risks**
- **Informing us about other matters that are relevant to our audit**

Management

Management is responsible for:

- **Preparing and fairly presenting the financial statements and the schedules of expenditures of federal and state awards in conformity 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 certain written representations**

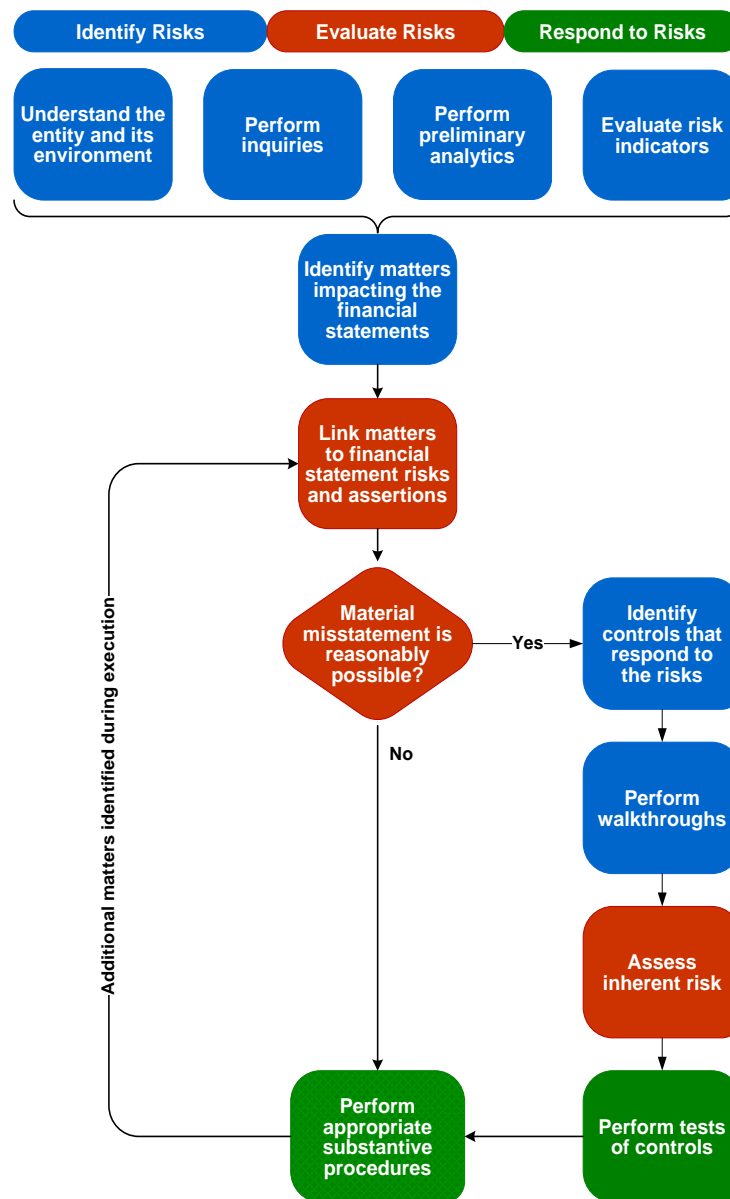
Audit scope and results



Horizon audit methodology

We approach our audits by:

- Understanding your business, including the environment the City operates in
- Using that knowledge and understanding to analyze your financial statements
- Determining materiality
- Identifying areas more likely to be materially misstated
- Focusing audit attention and effort on those areas



Materiality

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

- **Based on relevant financial statement benchmarks we believe that Total Assets/ or Total Revenue (by opinion unit) is the appropriate benchmark for the City.**

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).



Areas of Audit Focus

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

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

Scope of IT Control Testing

- The scope of the IT Controls Testing included the following IT governance areas:
 - Security Administration
 - Change Management
 - Batch Job Administration
- The following applications were included in our review:
 - General ledger/financial system (AMS)
 - Pay1 billing system (SAP)
 - Active Directory

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
- Internal control deficiency letter



Results of Financial Statement Audit

- Comprehensive Annual Financial Report (CAFR)
 - Unqualified "clean" opinions
 - Includes GFOA Certificate of Achievement for 2011 CAFR
 - One deficiency noted related to capital assets and CIP
 - No scope limitations
 - Continued open and effective communication with management
- Federal Single Audit Report (A-133)
 - Unqualified opinions for all programs
 - One instance of noncompliance and related significant deficiency noted
 - One additional control deficiency reported
 - All prior year findings have been remediated
- State Single Audit Report
 - Unqualified opinions for all programs
 - No noncompliance or deficiencies noted

Summary of adjustments – recorded adjustments

There are no recorded adjustments.

Summary of adjustments – passed adjustments

Airport Revenues

	Statement of Net Position			Change in Net Position
	<u>Assets*</u>	<u>Liabilities</u>	<u>Net Position</u>	
1 Beginning Net Position	-	-	1,673	-
Depreciation Expense	-	-	-	(1,673)
<i>To adjust for prior year depreciation expense not recognized due to assets not transferred from CIP to capital assets</i>				
2 Beginning Net Position	-	-	273	
Change in Net Pension Asset	-	-	-	(273)
<i>To record the reversing effects of the cumulative change in net pension asset catch up in current year</i>				
Net Effect	-	-	1,946	(1,946)
Airport Revenues Financial Statement Totals	<u>1,038,261</u>	<u>499,961</u>	<u>538,330</u>	<u>2,125</u>
Percentage of Financial Statement Totals	0.00%	0.00%	0.36%	-91.58%

*Materiality benchmark

Summary of adjustments – passed adjustments

Convention Center

	Statement of Net Position			Change in Net
	<u>Assets*</u>	<u>Liabilities</u>	<u>Net Position</u>	<u>Position</u>
3 Beginning Net Position	-	-	209	-
Change in Net Pension Asset	-	-	-	(209)
<i>To record the reversing effects of the cumulative change in net pension asset catch up in current year</i>				
Net Effect	-	-	209	(209)
Convention Center Financial Statement Totals	<u>623,071</u>	<u>347,860</u>	<u>285,146</u>	<u>(5,770)</u>
Percentage of Financial Statement Totals	0.00%	0.00%	0.07%	3.62%

*Materiality benchmark

Summary of adjustments – passed adjustments

Dallas Water Utilities

	<u>Statement of Net Position</u>			Change in Net
	<u>Assets*</u>	<u>Liabilities</u>	<u>Net Position</u>	<u>Position</u>
4 Beginning Net Position	-	-	2,920	-
Change in Net Pension Asset	-	-	-	(2,920)
<i>To record the reversing effects of the cumulative change in net pension asset catch up in current year</i>				
Net Effect	-	-	2,920	(2,920)
Dallas Water Utilities Financial Statement Totals	<u>4,708,885</u>	<u>2,452,991</u>	<u>2,284,830</u>	<u>88,870</u>
Percentage of Financial Statement Totals	0.00%	0.00%	0.13%	-3.29%

*Materiality benchmark

Summary of adjustments – passed adjustments

Governmental Activities

	<u>Statement of Net Position</u>			Change in Net
	<u>Assets*</u>	<u>Liabilities</u>	<u>Net Position</u>	<u>Position</u>
5 Beginning Net Position	-	-	11,430	-
Change in Net Pension Asset	-	-	-	(11,430)
<i>To record the reversing effects of the cumulative change in net pension asset catch up in current year</i>				
Net Effect	-	-	11,430	(11,430)
Governmental Activities Financial Statement Totals	<u>4,539,831</u>	<u>2,468,710</u>	<u>2,080,688</u>	<u>17,922</u>
Percentage of Financial Statement Totals	0.00%	0.00%	0.55%	-63.78%

*Materiality benchmark

Summary of adjustments – passed adjustments

Nonmajor Enterprise Funds

	<u>Statement of Net Position</u>			Change in Net <u>Position</u>
	<u>Assets*</u>	<u>Liabilities</u>	<u>Net Position</u>	
6 Beginning Net Position	-	-	531	-
Change in Net Pension Asset	-	-	-	(531)
<i>To record the reversing effects of the cumulative change in net pension asset catch up in current year</i>				
Net Effect	-	-	531	(531)
Nonmajor Enterprise Funds Financial Statement Totals	43,877	28,040	15,896	6,076
Percentage of Financial Statement Totals	0.00%	0.00%	3.34%	-8.74%

*Materiality benchmark

Summary of adjustments – passed adjustments

Pension Trust Fund

	<u>Statement of Net Position</u>			Change in Net
	<u>Assets*</u>	<u>Liabilities</u>	<u>Net Position</u>	<u>Position</u>
7 Beginning Net Position	-	-	3,815	-
Change in Net Pension Asset	-	-	-	(3,815)
<i>To record the reversing effects of the cumulative change in net pension asset catch up in current year</i>				
Net Effect	-	-	3,815	(3,815)
Pension Trust Fund Financial Statement Totals	<u>6,923,612</u>	<u>509,543</u>	<u>5,784,069</u>	<u>(217,933)</u>
Percentage of Financial Statement Totals	0.00%	0.00%	0.07%	1.75%

*Materiality benchmark

CAFR – Current year internal control findings

Audit Area	Finding	Severity	Status	Expected Remediation Date
Capital Assets	Aviation Construction in progress not being transferred correctly to capital assets. Depreciation expense catch-up for depreciation related to prior fiscal years.	Control Deficiency	New Finding	The City implemented procedures in August 2012 for the departments to meet on a quarterly basis to discuss the status of the construction in progress (CIP) to identify any projects which are “substantially complete” or “in use” for accounting purposes. During this process, management identified some CIP in the Aviation Department that should have been transferred to completed assets in a prior year. Management made the correcting entries during the year to transfer the CIP to completed assets and record the required depreciation expense. This finding was remediated during August 2012.

CAFR – Status of prior year internal control findings

Audit Area	Finding	Severity	Remediation Status
Capital Assets	DWU Construction in progress not being transferred correctly to capital assets. Depreciation expense catch-up for depreciation related to prior fiscal years.	Significant deficiency	Completed
IT	Changes identified as a result of periodic user access reviews are not consistently applied.	Deficiency	Completed

Single Audits – Current year compliance findings

Source	Program	CFDA #	Finding	Severity	Status
Federal	Airport Checked Baggage Screening Program	97.100	Process not followed for department to verify vendors are not suspended/debarred when performing procurement outside of purchasing department	Noncompliance and significant deficiency	New finding
Federal	Community Development Block Grant	14.218	Process not followed for department to verify vendors are not suspended/debarred when performing procurement outside of purchasing department. Item was identified and resolved prior to the external audit.	Control deficiency	New finding

Single Audits – Status of prior year compliance findings

Source	Program	CFDA #	Finding	Severity	Remediation Status
Federal	Community Oriented Policing Services Grant (COPS)	16.710	Reporting information for each quarter rather than cumulative	Noncompliance and control deficiency	Remediated
Federal	Water Security Training & Technical Assistance	66.478	Failure to submit semi-annual MBE/WBE reports	Noncompliance and significant deficiency	Remediated
Federal	Water Security Training & Technical Assistance	66.478	Process not in place for department to verify vendors are not suspended/debarred when performing procurement outside of purchasing department	Material weakness	Remediated
Federal	Water Security Training & Technical Assistance	66.478	Failure to maintain inventory listing of grant-funded equipment	Material noncompliance and material weakness	Remediated
State	Urban Search and Rescue Task Force Program	n/a	Failure to include required clause in contract and failure to obtain certified payrolls as required by the Davis-Bacon Act	Material noncompliance and material weakness	Remediated

Other required communications

Disagreements with management

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

Management's consultations with other accountants

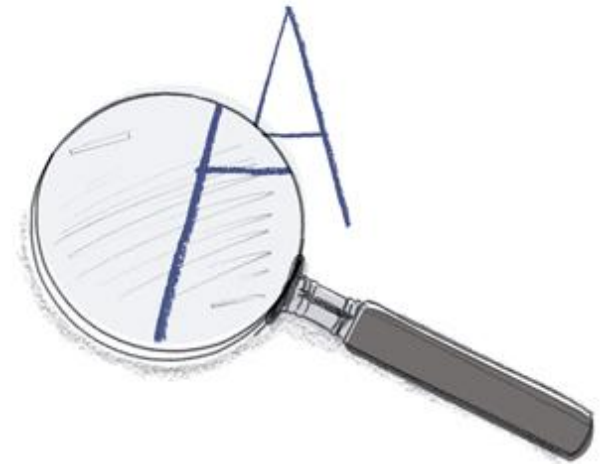
We are not aware of any consultations by management with other accountants regarding accounting or auditing matters.

Difficulties encountered during the audit

We encountered no significant difficulties, including:

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

Quality of accounting practices and alternative treatments



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

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

Disclosures

- We have assessed the financial statements and disclosures for clarity and completeness.
- Footnote disclosures in the financial statements appear overall to be neutral, consistent, and clear.

Other matters



Value for fees

Deliverables

Reports on the 2012 City of Dallas financial statements, including the following: CAFR, Airport Revenue Fund (including the Schedule of Expenditures of Passenger Facility Charges), Dallas Water Utilities, Vickery Meadow TIF, and DDDA TIF

(For A-133 and State Single Audit) 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

<u>Government-Wide:</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Governmental:					
Change in net position (deficit)	\$ 18	\$ 138	\$ 398	\$ (2)	\$ 14
Total net position	2,081	2,075	1,936	1,538	1,540
Ending unrestricted net position (deficit)	(280)	(265)	(266)	(207)	(178)
Capital assets, net	3,290	3,218	3,119	2,653	2,488
Business-type:					
Change in net position (deficit)	\$ 91	\$ 135	\$ 69	\$ 70	\$ 111
Total net position	3,124	3,049	2,913	2,844	2,774
Ending unrestricted net position (deficit)	325	239	195	186	222
Capital assets, net	5,282	4,996	4,658	4,508	4,339
<u>Governmental:</u>					
Tax Rate (per \$100 valuation)					
Total	\$ 0.7970	\$ 0.7970	\$ 0.7479	\$ 0.7479	\$ 0.7479
General Fund	0.5379	0.5324	0.4918	0.5230	0.5196
Debt Service	0.2591	0.2646	0.2561	0.2249	0.2283
Taxable Assessed Valuation (in billions)	\$ 82.0	\$ 83.4	\$ 87.3	\$ 90.5	\$ 84.5
Total General Obligation Bonds	\$ 1,292	\$ 1,405	\$ 1,510	\$ 1,512	\$ 1,404
Debt Service expenditures as a percentage of non-capital expenditures	17.50%	17.95%	19.97%	17.34%	16.31%
General Fund Balance:					
Total	\$ 149.0	\$ 121.4	\$ 92.0	\$ 104.0	\$ 118.3
Unreserved/Unassigned	\$ 101.2	\$ 83.3	\$ 64.7	\$ 78.3	\$ 91.5
General Fund Expenditures	\$ 974.6	\$ 964.5	\$ 999.8	\$ 1,015.5	\$ 1,033.0
Unreserved/Unassigned General Fund balance as a percentage of expenditures	10.38%	8.64%	6.47%	7.71%	8.86%
Excess (deficiency) of revenues over (under) expenditures	\$ 22.0	\$ 27.3	\$ (35.7)	\$ (17.3)	\$ (33.1)
Transfers in (out) of General Fund, net	\$ 0.1	\$ (3.1)	\$ 18.8	\$ (2.7)	\$ (5.6)

Financial Highlights – Summary (continued)

<u>Business-Type:</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Income (loss) before transfers and contributions:					
Dallas Water Utilities	\$ 100.6	\$ 106.9	\$ 44.4	\$ 58.3	\$ 74.6
Convention Center	(4.5)	1.3	(3.3)	(8.1)	2.5
Airport Revenue	(13.2)	2.7	17.1	7.5	8.1
Total Capital Assets, net					
Dallas Water Utilities	\$ 3,987	\$ 3,811	\$ 3,660	\$ 3,513	\$ 3,331
Convention Center	526	531	539	555	573
Airport Revenue	767	652	457	437	432
Ending net assets:					
Dallas Water Utilities	\$ 2,285	\$ 2,207	\$ 2,107	\$ 2,064	\$ 1,996
Convention Center	285	295	295	303	314
Airport Revenue	538	536	508	471	452
Revenue Bond Coverage:					
Dallas Water Utilities (minimum requirement 1.25)	1.76	1.58	1.4	1.43	1.52
Convention Center	1.6	2.1	1.8	1.7	1.4
Airport Revenue	N/A	N/A	13.2	10.5	8.6
Internal Service Fund Balance (deficit):					
Risk Funds fund deficit	\$ (56.0)	\$ (65.2)	\$ (84.0)	\$ (94.7)	\$ (78.9)
Risk Funds claims total liability	64.9	73.4	86.3	93.8	93.9
Risk Funds fund deficit as a % of total general fund balance	37.56%	53.70%	91.30%	91.10%	66.40%
Net Other Post Employment Benefit "OPEB" obligation	\$ 170.1	\$ 126.2	\$ 96.3	\$ 73.2	\$ 36.8
Landfill closure and post-closure liability	\$ 32.0	\$ 33.0	\$ 32.8	\$ 31.7	\$ 30.5

Financial Highlights – Government-Wide

Definitions:

- "Change in net assets (deficit)": essentially "net income (loss)"
- "Total net assets (deficit)": the excess (deficit) of assets vs. liabilities
- "Unrestricted net assets": "remaining" net assets 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>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Governmental:					
Change in net assets (deficit)	\$ 18	\$ 138	\$ 398	\$ (2)	\$ 14
Total net assets	2,081	2,075	1,936	1,538	1,540
Ending unrestricted net assets (deficit) (1)	(280)	(265)	(266)	(207)	(178)
Capital assets, net (3)	3,290	3,218	3,119	2,653	2,488
Business-type:					
Change in net assets	\$ 91	\$ 135	\$ 69	\$ 70	\$ 111
Total net assets	3,124	3,049	2,913	2,844	2,774
Ending unrestricted net assets (2)	325	239	195	186	222
Capital assets, net (3)	5,282	4,996	4,658	4,508	4,339

Key Observations:

- (1) The "Governmental" unrestricted net deficit increased annually from 2008-2010 and remained consistent between 2010 and 2012
- (2) The "Business-type" unrestricted net assets decreased from 2008-2009 and increased from 2010-2012.
- (3) "Capital Assets, net balances (both "Governmental" and "Business-type") have increased annually from 2008-2012

Financial Highlights – Governmental Tax Rate, Assessed Value and Debt

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

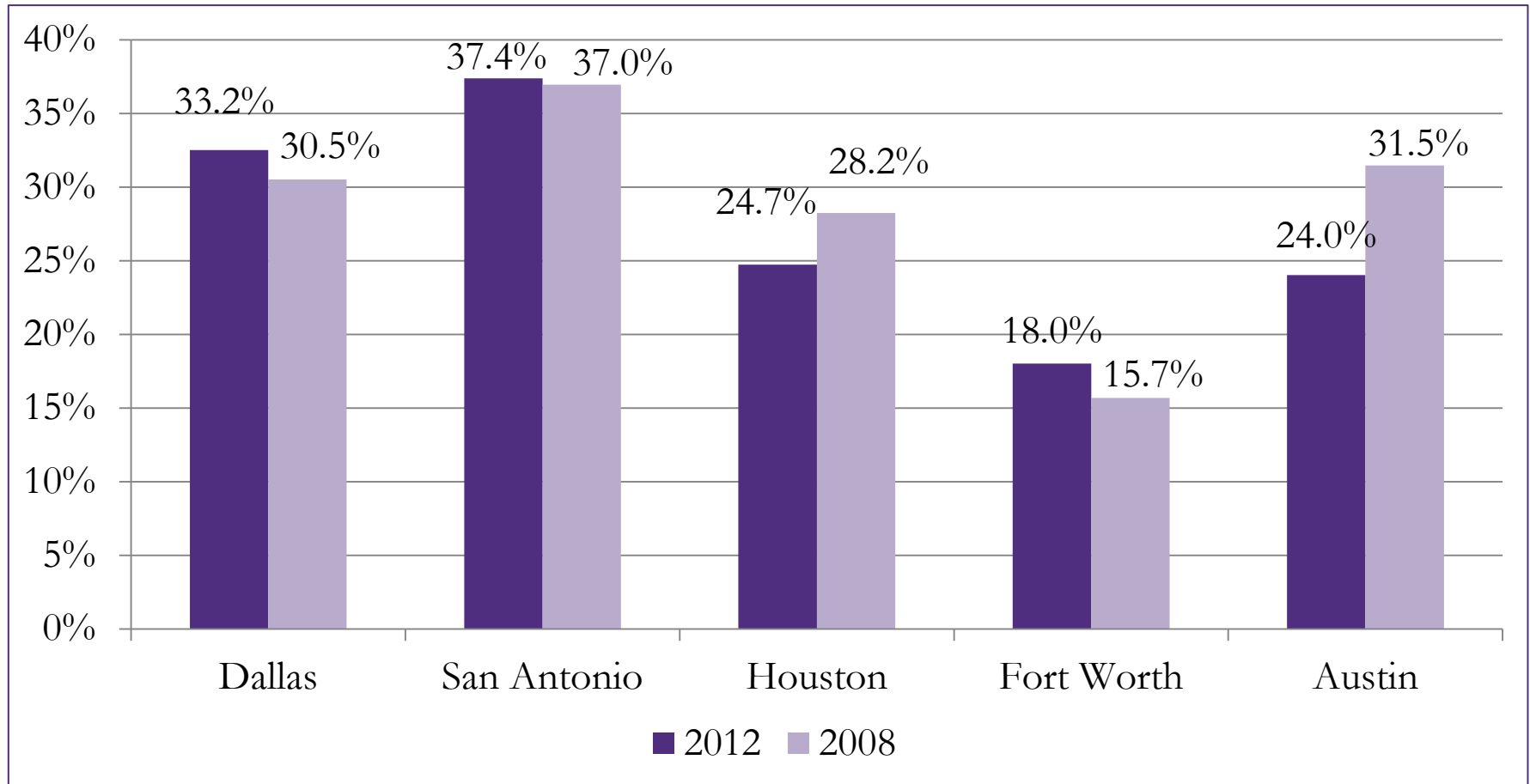
Financial Trends:

<u>Governmental:</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Tax Rate (per \$100 valuation)					
Total (1)	\$ 0.7970	\$ 0.7970	\$ 0.7479	\$ 0.7479	\$ 0.7479
General Fund	0.5379	0.5324	0.4918	0.523	0.5196
Debt Service (2)	0.2591	0.2646	0.2561	0.2249	0.2283
Taxable Assessed Valuation (in billions) (3)	\$ 82.0	\$ 83.4	\$ 87.3	\$ 90.5	\$ 84.5
Total General Obligation Debt (4)	\$ 1,292	\$ 1,405	\$ 1,510	\$ 1,512	\$ 1,404
Debt Service expenditures as a percentage of non-capital expenditures (5)	17.00%	17.95%	19.97%	17.34%	16.31%

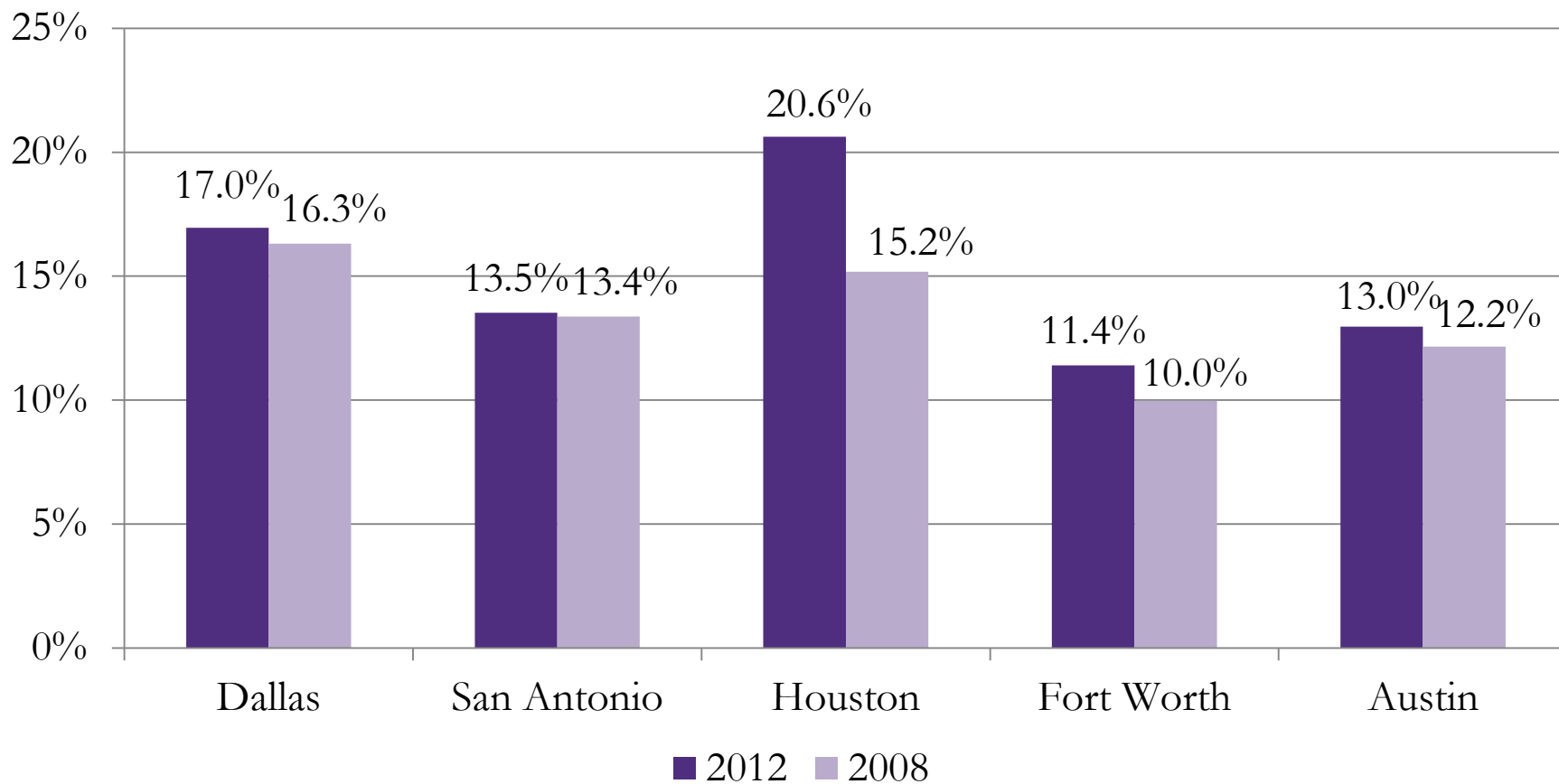
Key Observations:

- (1) The total tax rate remained unchanged from 2008-2010, then increased in 2011.
- (2) The tax rate component for debt service increased annually since 2008 (except for 2009 and 2012)
- (3) The taxable assessed valuation increased from 2008-2009, before declining 3.2% (2010), 3.9% (2011), and 1.4% (2012)
- (4) Total General Obligation debt increased annually from 2008-2009 before declining in 2010-2012
- (5) Debt service expenditures as a % of non-capital expenditures increased annually from 2008-2010 before declining in 2011 and 2012

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



Debt Service Expenditures as a % of Non-Capital Expenditures



Financial Highlights – General Fund

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

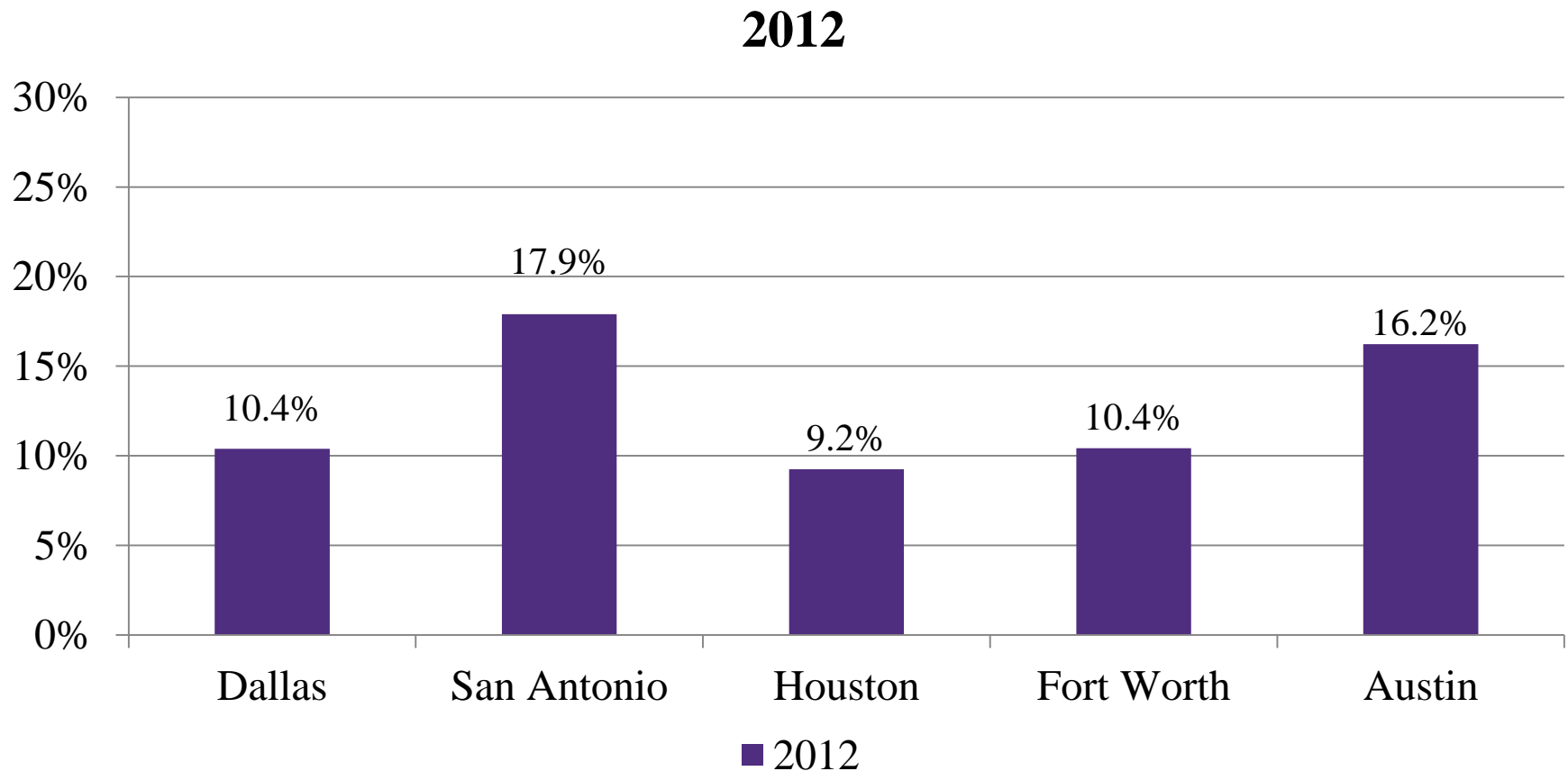
Financial Trends:

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
General Fund Balance: (1)					
Total	\$ 149.0	\$ 121.4	\$ 92.0	\$ 104.0	\$ 118.3
Unreserved/Unassigned	\$ 101.2	\$ 83.3	\$ 64.7	\$ 78.3	\$ 91.5
General Fund Expenditures (2)	\$ 974.6	\$ 964.5	\$ 999.8	\$ 1,015.5	\$ 1,033.0
Unreserved/Unassigned General Fund balance as a percentage of expenditures (1)	10.38%	8.64%	6.47%	7.71%	8.86%
Excess (deficiency) of revenues over (under) expenditures	\$ 22.0	\$ 27.3	\$ (35.7)	\$ (17.3)	\$ (33.1)
Transfers in (out) of General Fund, net (4)	\$ 0.1	\$ (3.1)	\$ 18.8	\$ (2.7)	\$ (5.6)

Key Observations:

- (1) The General Fund Balance (both "total" and "unreserved/unassigned" components) and the "unreserved/unassigned general fund balance as a percentage of expenditures" decreased annually from 2008-2010, then both components increased in 2011 and 2012.
- (2) General Fund expenditures have remained relatively consistent from 2008-2012
- (3) The excess continued as a deficiency in 2008 through 2010 before becoming an excess in 2011 and 2012.
- (4) The transfers (out), net of the General Fund declined annually from 2008-2009, and became a net "transfer-in" in 2010 before becoming a net transfer (out) again in 2011, and breakeven in 2012

Unassigned General Fund Balance as a % of General Fund Expenditures (2012)



Financial Highlights – Business-Type "Enterprise" Activities

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>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Income (loss) before transfers and contributions:					
Dallas Water Utilities	\$ 100.6	\$ 106.9	\$ 44.4	\$ 58.3	\$ 74.6
Convention Center	(4.5)	1.3	(3.3)	(8.1)	2.5
Airport Revenue	(13.2)	2.7	17.1	7.5	8.1
Total Capital Assets, net (1)					
Dallas Water Utilities	\$ 3,987	\$ 3,811	\$ 3,660	\$ 3,513	\$ 3,331
Convention Center	526	531	539	555	573
Airport Revenue	767	652	457	437	432
Revenue Bond Coverage:					
Dallas Water Utilities (2)	1.76	1.58	1.4	1.43	1.52
Convention Center (3)	1.6	2.1	1.8	1.7	1.4
Airport Revenue (3)	N/A	N/A	13.2	10.5	8.6

Key Observations:

- (1) Total Capital Assets, net increased annually between 2008-2012
- (2) Revenue Bond Coverage for Dallas Water Utilities remained relatively consistent from 2008-2011, and increased in 2012
- (3) Revenue Bond Coverage for Convention Center and Airport Revenue increased annually from 2008-2011 and decreased in 2012. Airport Revenue bonds were refunded during 2011 and 2012.

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

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>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Internal Service Fund Balance (deficit): (1)					
Risk Funds fund deficit	\$ (56.00)	\$ (65.20)	\$ (84.00)	\$ (94.70)	\$ (78.90)
Risk Funds claims total liability	64.9	73.4	86.3	93.8	93.9
Risk Funds fund deficit as a % of total general fund balance (2)	37.56%	53.70%	91.30%	91.10%	66.40%
Net Other Post Employment Benefit "OPEB" obligation (3)	\$ 170.10	\$ 126.20	\$ 96.30	\$ 73.20	\$ 36.80
Landfill closure and post-closure liability (4)	\$ 32.00	\$ 33.00	\$ 32.80	\$ 31.70	\$ 30.50

Unfunded Pension Benefit Obligation (5)

New accounting rules recently finalized

Key Observations:

- (1) The City's self-insured risk activities are essentially being funded on a "pay-as-you-go" basis
- (2) The Risk Funds fund deficit as a % of total general fund balance increased annually 2008-2010, then decreased in 2011 and 2012
- (3) The net OPEB obligation has increased annually 2008-2012, 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 remained consistent from 2008-2012
- (5) New accounting rules, specifically GASB Statement Number 68, will require the City to accrue a liability on its financial statements for its unfunded pension benefit obligation. The City plans to implement this as required by GASB during the fiscal year ending September 30, 2015.

Questions & Answers



Commitment to promote ethical and professional excellence

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

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

The EthicsPoint URL link

- Can be found on our internal Web site
- Can be accessed from our external Web site (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.

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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