City of Lewisville

City Council Meeting

March 16, 2020

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Overview

- Introduction
- Audit Results
- Audit Process
- Required Communications
- Financial Highlights
- Discussion

Engagement Leadership

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We know your questions don't end when the audit does, so the team leadership remains available to you throughout the year.

John DeBurro, CPA
Partner, Assurance Services

Ben Cohen, CPA
Manager, Assurance Services

Engagement Team

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Elisa Gilbertson, CPA,
Data Analytics Manager

John DeBurro, CPA
Engagement Partner

Jerry Gaither, CPA
Concurring Partner

Ben Cohen, CPA
Manager

Michelle Staples
Senior Associate

Audit Associates and Other Supporting Staff Members

Audit Results

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Auditor Results

- We issued the Independent Auditor's Report on the financial statements
  - ✓ **Unmodified Opinion**
- We issued the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards
  - ✓ **No findings noted**
- We issued the Independent Auditor's Reports on Compliance for Each Major Federal and State Program and Reports on Internal Control over Compliance and on the Schedules of Expenditures of Federal and State Awards in Accordance with The Uniform Guidance and Uniform Grant Management Standards
  - ✓ **No findings noted**

Audit Results

Strengths & Accomplishments

- ✓ No material weaknesses in internal controls
- ✓ No material misstatements or passed adjustments
- ✓ Received **Certificate of Excellence in Financial Reporting** on the City's CAFR from the Government Finance Officer's Association (GFOA)

Audit Process

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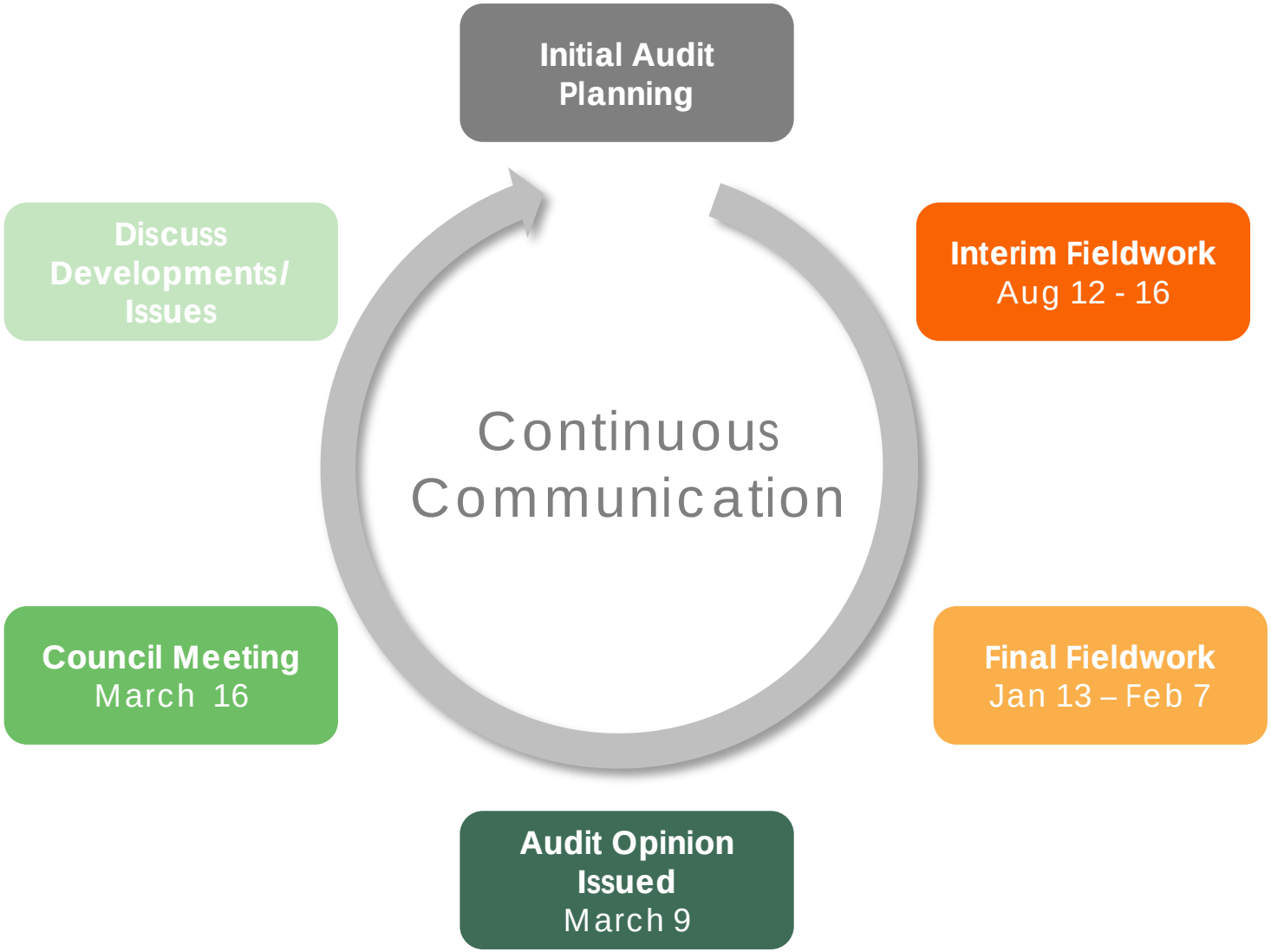
Engagement Timeline



Audit Process

The audit was performed in accordance with:

- **Generally Accepted Auditing Standards** (GAAS),
- **Generally Accepted Government Auditing Standards** (GAGAS)
- ***Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*** (The Uniform Guidance)
- **Uniform Grant Management Standards** (State Grants)

The audit process was a **risk-based approach** in which we identified potential areas of risk that could lead to material misstatement of the financial statements. We tailored our audit programs and resources to specifically address areas of risk, such as:

- Revenue recognition and related receivables
- Federal and state grant revenues and expenditures
- Capital projects, purchasing and compliance with bidding procedures
- Payables, accrued liabilities, and expenditures
- Long-term liabilities (i.e. bonds payable)

Audit Process

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Interim fieldwork and risk assessment were performed in August 2019. Procedures included:

- Walkthroughs of accounting controls over significant transaction cycles:
  - A. Cash Disbursements and Purchases
  - B. Payroll Disbursements (including TMRS census data)
  - C. Investments
  - D. Receipts - Municipal Court, Utility Billing, Taxes, Permits
  - E. Budget and Financial Close Process
- Tests of compliance with the Public Funds Investment Act
- Control testing over cash disbursements and payroll transactions
- Testing of capital projects

Audit Process

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Final fieldwork- performed in January / February 2020 - Procedures included:

- Testing account balances and current year activity using a combination of:
  - analytics,
  - vouching of material transactions, and
  - Sampling
- Evaluating estimates for reasonableness
- Identification and testing of the City's major federal program:
  - *SAFER Grant* – CFDA# 97.083 - $1,122,751
- Identification and testing of the City's major state program:
  - *Old Town Transit Orientation* – CSJ# 0918-46-261 - $2,436,565

Auditor Communications

for the year ended September 30, 2019

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Required Communications to Those in Charge of Governance

Communication	Results
Generally accepted auditing standards	The financial statements are the responsibility of the City. Our audit was designed to provide for reasonable rather than absolute assurance that the financial statements are free of material misstatement. Our responsibility is to express an opinion about whether the financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. The audit of the fiscal year 2019 financial statements is complete and we have issued an **unmodified opinion**.

Required Communications to Those in Charge of Governance

Communication	Results
Generally accepted government auditing standards	In addition to the GAAS responsibilities, we are required to issue a written report on our consideration of internal controls and identify significant deficiencies, including material weaknesses, if any. Our reports do not provide assurance on internal controls. We design our audit to provide reasonable assurance of detecting material misstatements resulting from noncompliance with provisions of contracts or grant agreements that have a direct or material effect on the financial statements. We issue a written report on the results of these procedures; however, our report does not express an opinion on compliance. **No findings noted**.

Required Communications to Those in Charge of Governance

Communication	Results
Auditor's Responsibility under The Uniform Guidance (Federal) and Uniform Grants Management Standards (State)	Our testing includes all major federal and state financial assistance programs. We report on such testing, and disclose any significant deficiencies in internal control over compliance, including material weaknesses we identify. Our reports do not provide assurance on internal control over compliance. We perform procedures for the purpose of expressing opinions on whether major federal and state financial assistance programs have been administered in compliance with applicable laws and regulations. The audit of the fiscal year 2019 major federal and state financial assistance programs has been completed and we have issued **unmodified opinions**.

Required Communications to Those in Charge of Governance

Communication	Results
Unusual transactions and the adoption of new accounting principles	The significant accounting policies used by the City are described in Note 1 to the financial statements. There were no new GASB pronouncements implemented during 2019 that had any significant effect on the City's financial statements. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus.

Required Communications to Those in Charge of Governance

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Communication	Results
Fraud and illegal acts	No material errors, irregularities, or illegal acts were noted.
Material weakness in internal control	No material weaknesses noted.
Other information contained in documents containing audited financial statements	We provided an "in relation to opinion" on supplementary information accompanying the financial statements. We performed limited procedures on the required supplementary information. We did not provide any assurance on this information. The Introductory and Statistical sections were both unaudited.
Management judgments and accounting estimates	Management's estimates of Incurred-but-not-reported (IBNR) workers' comp, health, and dental claims; net pension and OPEB liabilities; allowance for uncollectible receivables; and estimated useful lives for capital assets were evaluated and determined to be reasonable in relation to the financial statements as a whole.

Required Communications to Those in Charge of Governance

Communication	Results
Difficulties encountered	No difficulties or disagreements arose during the course of our audit.
Management representations	We requested certain representations from management that were included in the management representation letter.
Management consultations	We are not aware of management consulting with other accountants for a second opinion.
Auditor independence	No independence issues noted.
Audit adjustments	Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no passed adjustment identified during our audit. We made no significant audit adjustments as a result of our audit procedures.

Financial Highlights

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Financial Highlights

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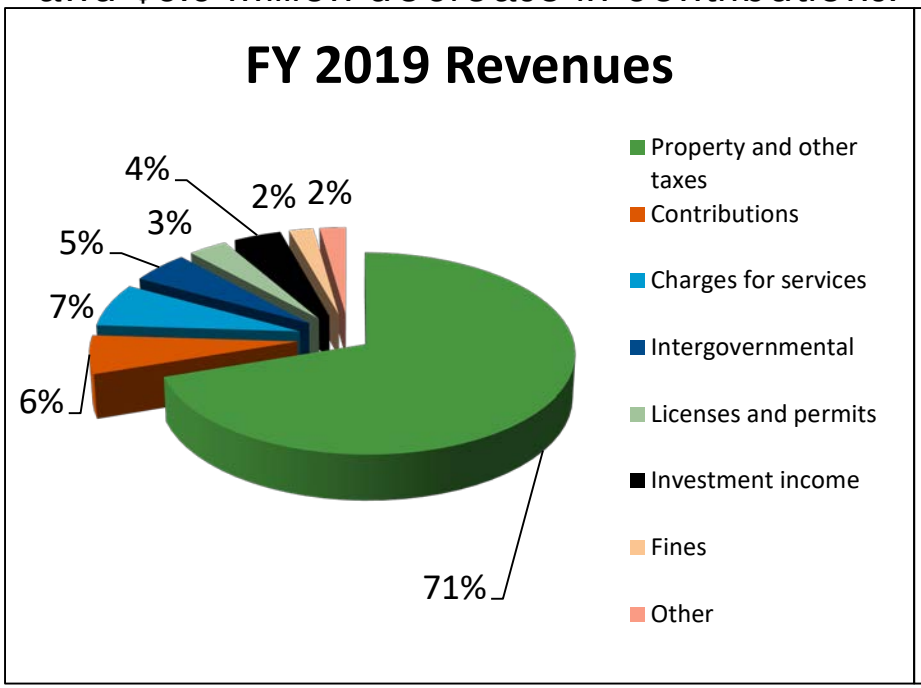
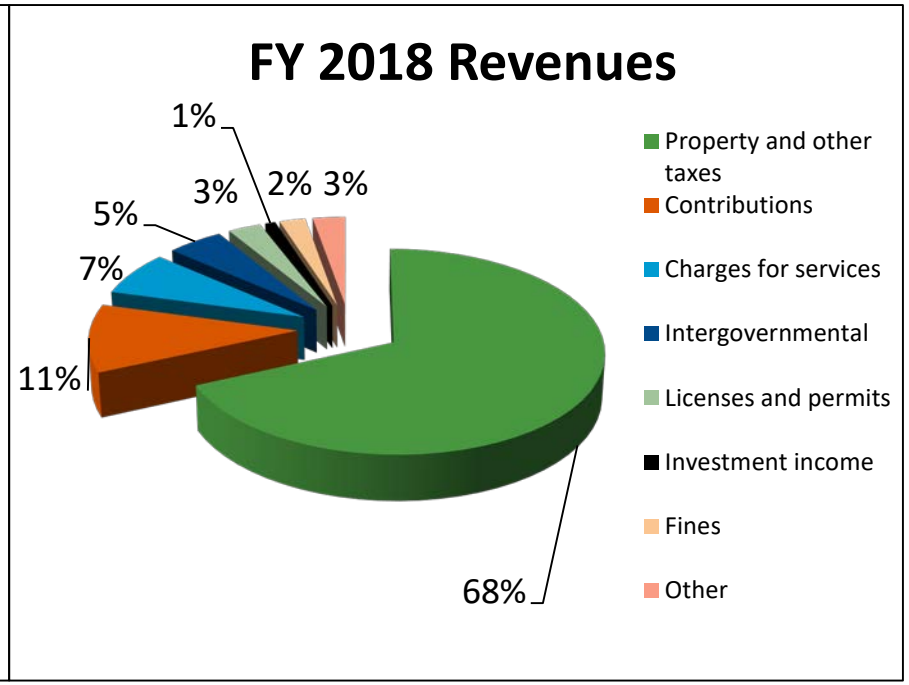
Comparison of Governmental Revenues by Source

Governmental Funds Revenues for FY 2019 totaled $137.2 million, a $3.9 million or 2.9% increase. This increase is primarily attributable to the net effect of a $5.8 million increase in property and other taxes, a $4.5 million increase in investment income, and $6.0 million decrease in contributions.





Financial Highlights

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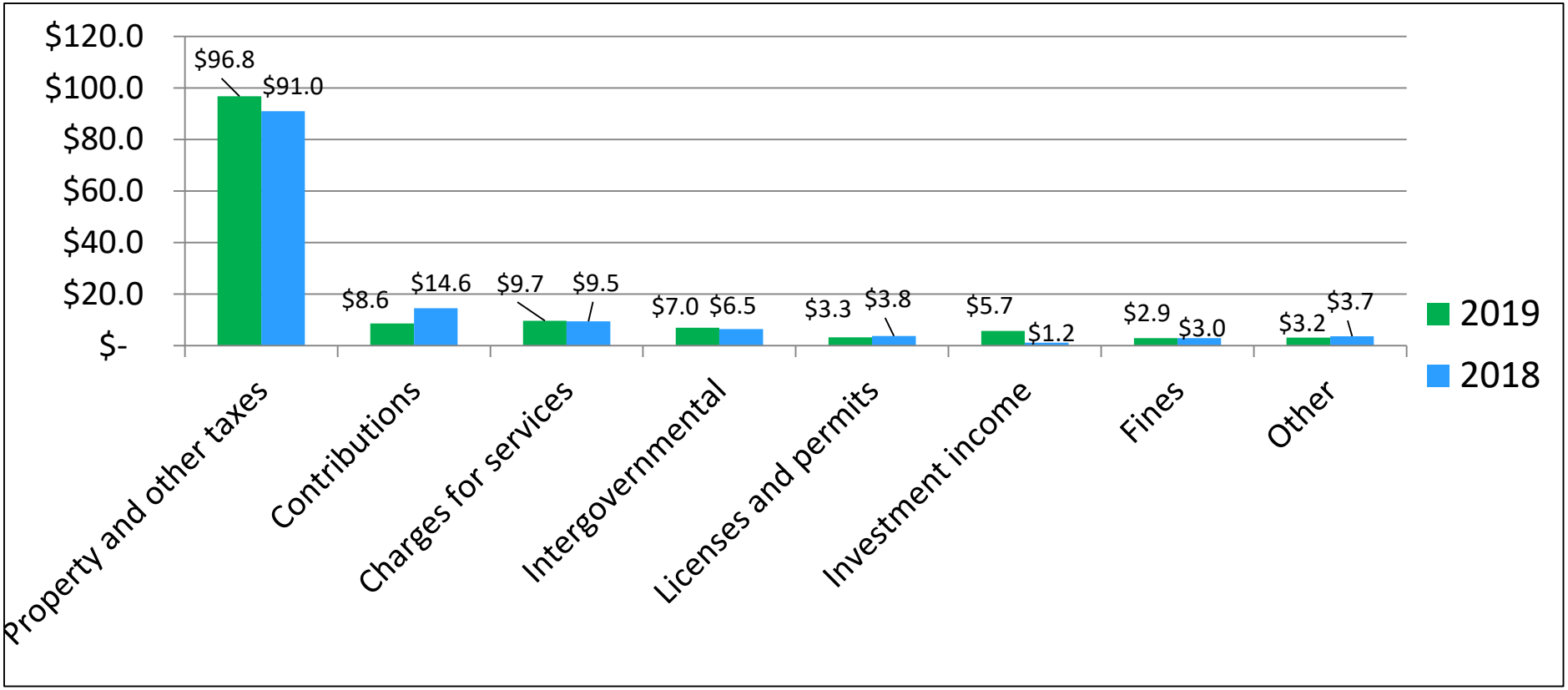
Comparison of Governmental Funds Revenues by Source



(2-year comparison in millions of dollars)

Financial Highlights

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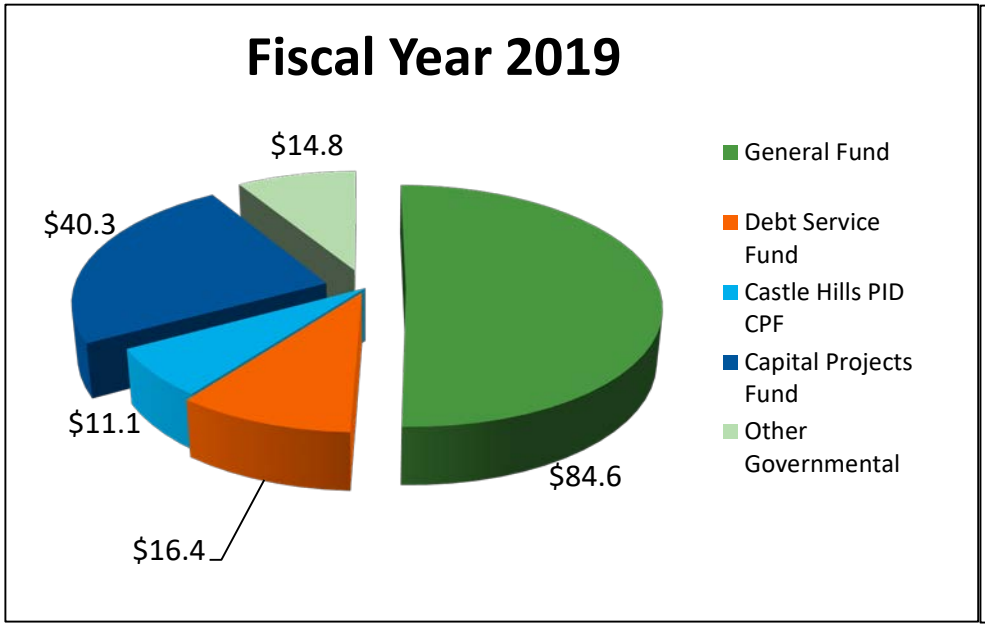
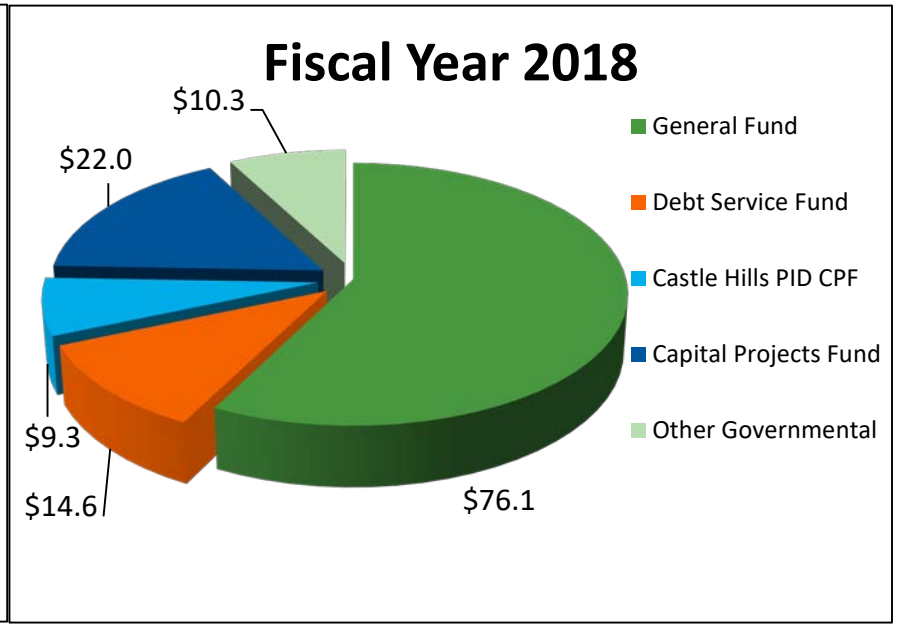
Comparison of Governmental Funds Expenditures by Fund (In millions of dollars)





Governmental Fund Expenditures for FY2019 totaled $167.2 million, a $25.7million or 18.2% increase.

- Capital outlay expenditures increased $13.2 million.
- Public safety expenditures increased $5.6 million.
- General government and debt service expenditures each increased $2.8 million.

Financial Highlights

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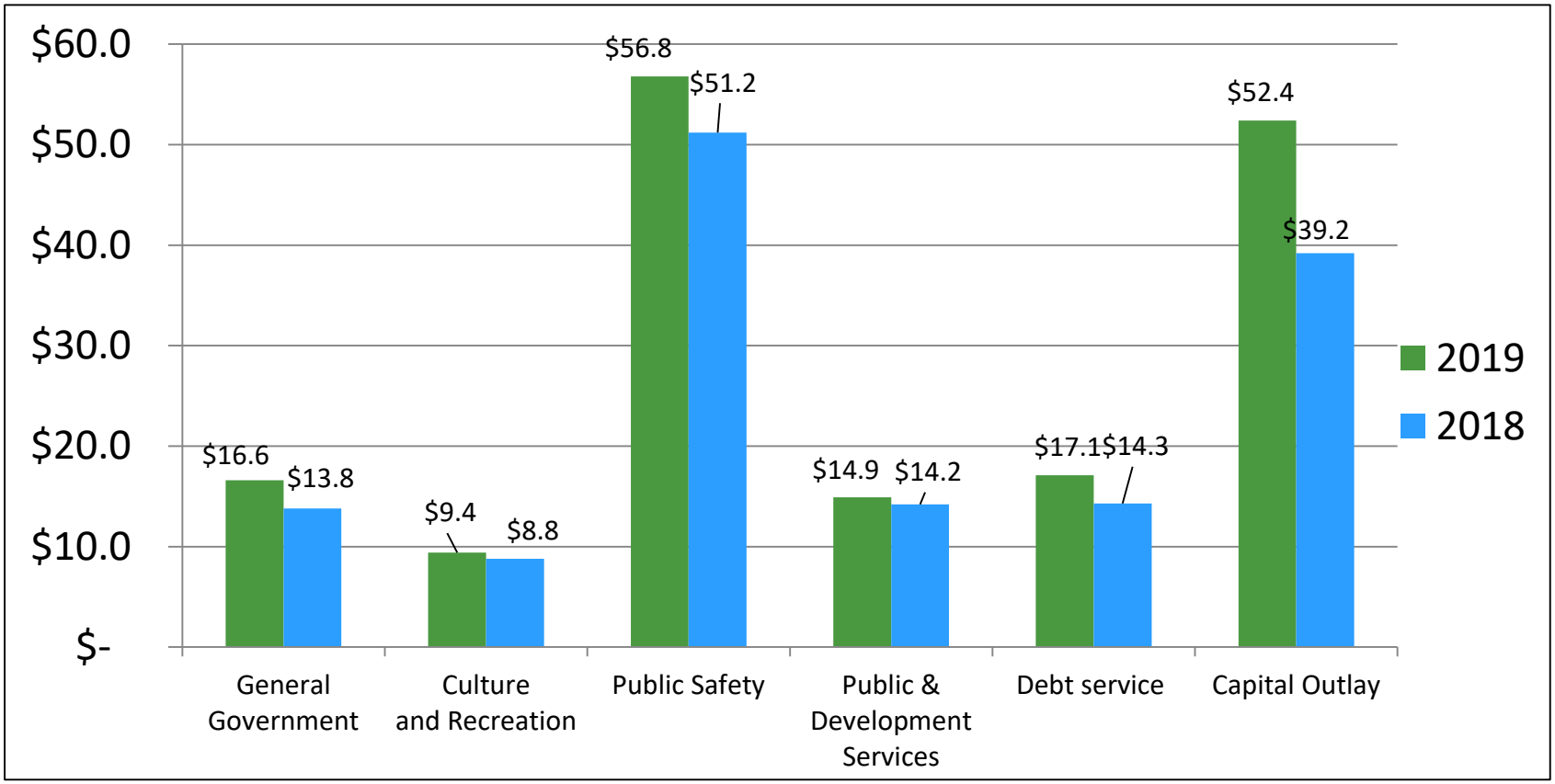
Comparison of Governmental Funds Expenditures *



*(2-year comparison in millions of dollars)

Financial Highlights

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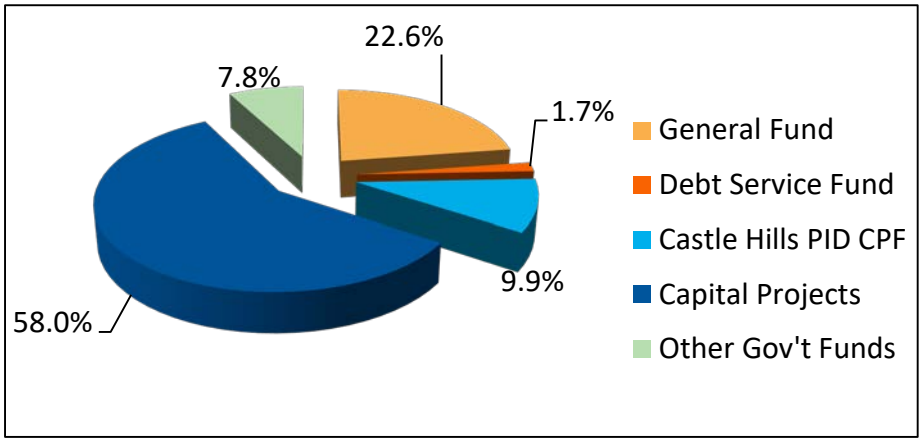
Fund Balances

Governmental Funds Fund Balance

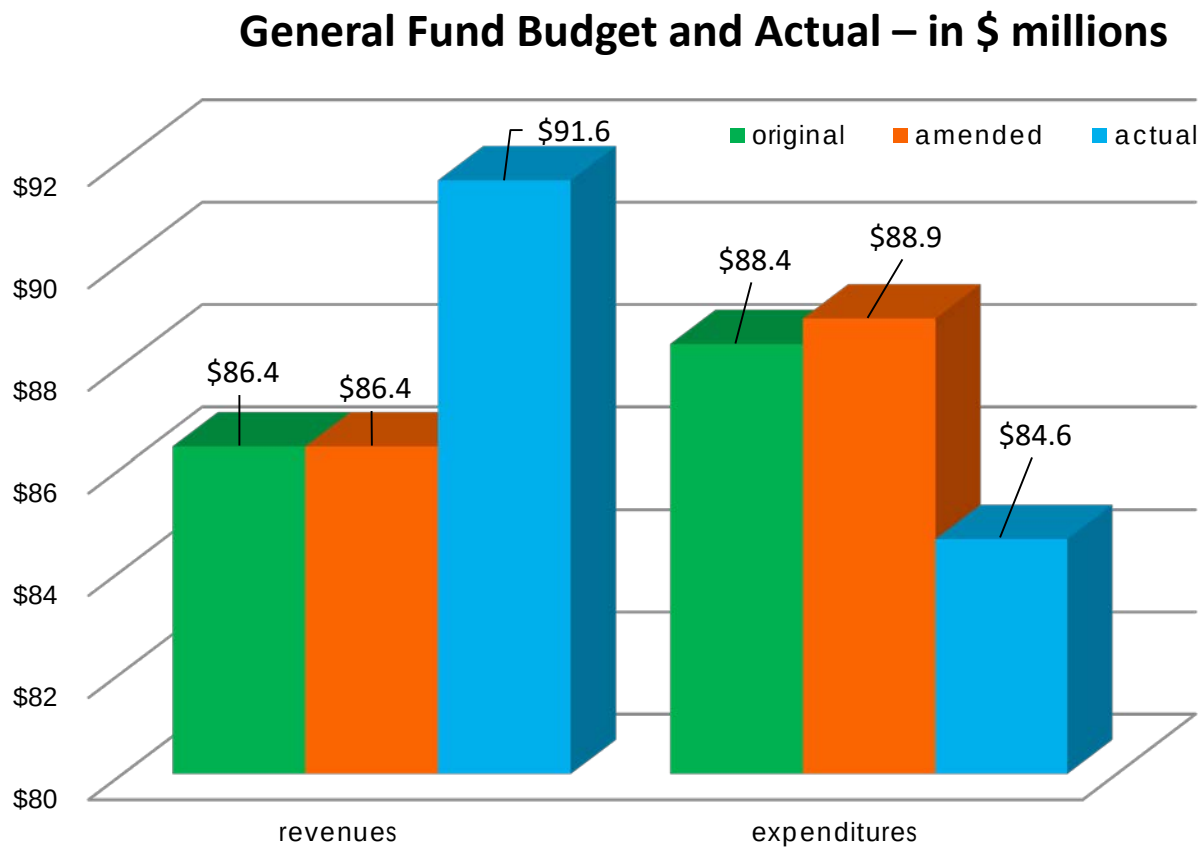
The City's governmental funds reported an ending fund balance of $162.1 million at September 30, 2019 as follows:

• General Fund	$36,712,653
• Debt Service	2,787,568
• Castle Hills PID CPF	16,029,545
• Capital Projects	93,948,330
• Other Gov't Funds	12,580,597
	$162,058,693



- Governmental Funds' fund balance increased by $34.8 million, primarily due to a $39.3 million increase in the General Capital Projects Fund, the result of the bonds issued to fund new capital projects.
- Unassigned fund balance in the General Fund ($35.6 million) represents 42% of General Fund expenditures.

General Fund Budget vs Actual



Overall, favorable budgetary variance of $9.5 million:

- Revenues exceeded budget by $5.2 million
- Expenditures were $4.3 million below budget.

Enterprise Funds- Current and Prior Year

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Statement of Revenues, Expenses and Changes in Net Position- Enterprise Funds

	2019	2018	$ Change	% Change
Operating revenues	$ 37,815,452	$ 37,072,308	$ 743,144	2%
Operating expenses	(28,302,211)	(28,868,469)	(566,258)	-2%
Nonoperating revenues (expenses)	502,490	(1,061,008)	1,563,498	-147%
Capital contributions and transfers	8,773,578	13,760,276	(4,986,698)	-36%
Change in net position	$ 18,789,309	$ 20,903,107	(2,113,798)	-10%

Net position increased by $18.8 million over prior year:

- Operating revenues increased $743K – the net effect of a $170K decrease in the water and sewer fund and a $913K increase in the stormwater utility fund.
- Operating expenses decreased $566K – primarily due to a decrease in the cost of water purchased.
- Nonoperating revenue increased $1.6 million due to a $2.0 million increase in investment income.
- Capital contributions and transfers–decreased by $5.0 million – primarily due to a $3.3 million decrease in developer contributions (infrastructure) and a $1.2 million decrease in impact fees.

Upcoming Changes

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GASB 84:

Effective for periods beginning after 12/15/2018 (FY2020)

Fiduciary Activities

The primary objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

Upcoming Changes

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GASB 87:

Effective for periods beginning after 12/15/2019 (FY2021)

Leases

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments.

This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.

It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

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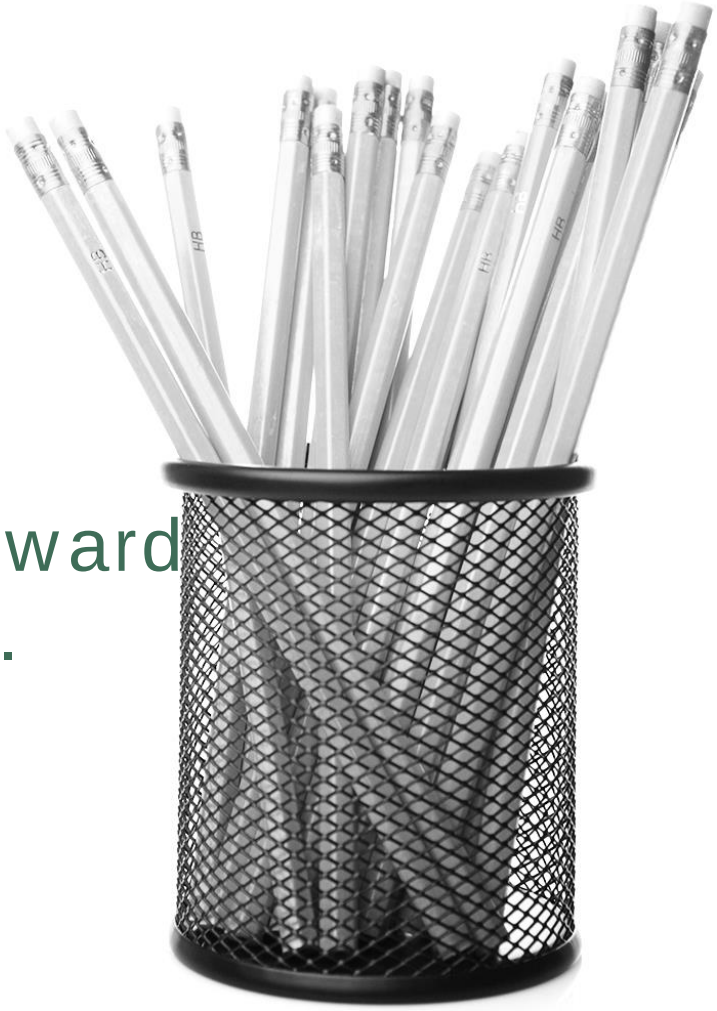
We appreciate the opportunity to work with **City of Lewisville** and look forward to our continued relationship.



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Discussion

Contact Us

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