



# CITY OF MCKINNEY, TEXAS

## FISCAL YEAR 2018 AUDIT COMMITTEE PRESENTATION

PRESENTED BY:

DAVID COLEMAN, CPA

ANDREW SHERWOOD, CPA

**BKD**<sup>LLP</sup>  
CPAs & Advisors

# TABLE OF CONTENTS

<b>1</b>	Audit Results	<b>5</b>	Trends of Revenues and Expenses
<b>2</b>	Required Communication	<b>6</b>	Capital Assets
<b>3</b>	Basic Financial Statements	<b>7</b>	OPEB Adoption and Pension and OPEBs
<b>4</b>	Notes to Financial Statements	<b>8</b>	Accounting Updates

# AUDIT RESULTS – UNMODIFIED OPINIONS

- ▶▶ Independent Auditor’s Report on Basic Financial Statements
- ▶▶ Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*
- ▶▶ Independent Auditor’s Report on Compliance for Each Major Program; Report on Internal Control Over Compliance and Report on Schedule of Expenditures of Federal and State Awards

# REQUIRED COMMUNICATION

- ▶▶ There were no material weaknesses or significant deficiencies in internal controls identified during the audit.
- ▶▶ During fiscal year 2018, the City received its Certificate of Achievement of Excellence in Financial Reporting for its 2017 CAFR. This was the 34<sup>th</sup> consecutive year the City has received this prestigious award.
- ▶▶ No audit adjustments recorded. However, the turn-around effect of a 2017 passed audit adjustment related to accrual of a legal liability will be included in the management representation letter.
- ▶▶ For fiscal year 2018, the City had one major federal and one major state award program, the Community Development Block Grant and the Virginia Parkway Grant. We identified no compliance or internal control matters related to these programs during our single audit testing.

# BASIC FINANCIAL STATEMENTS

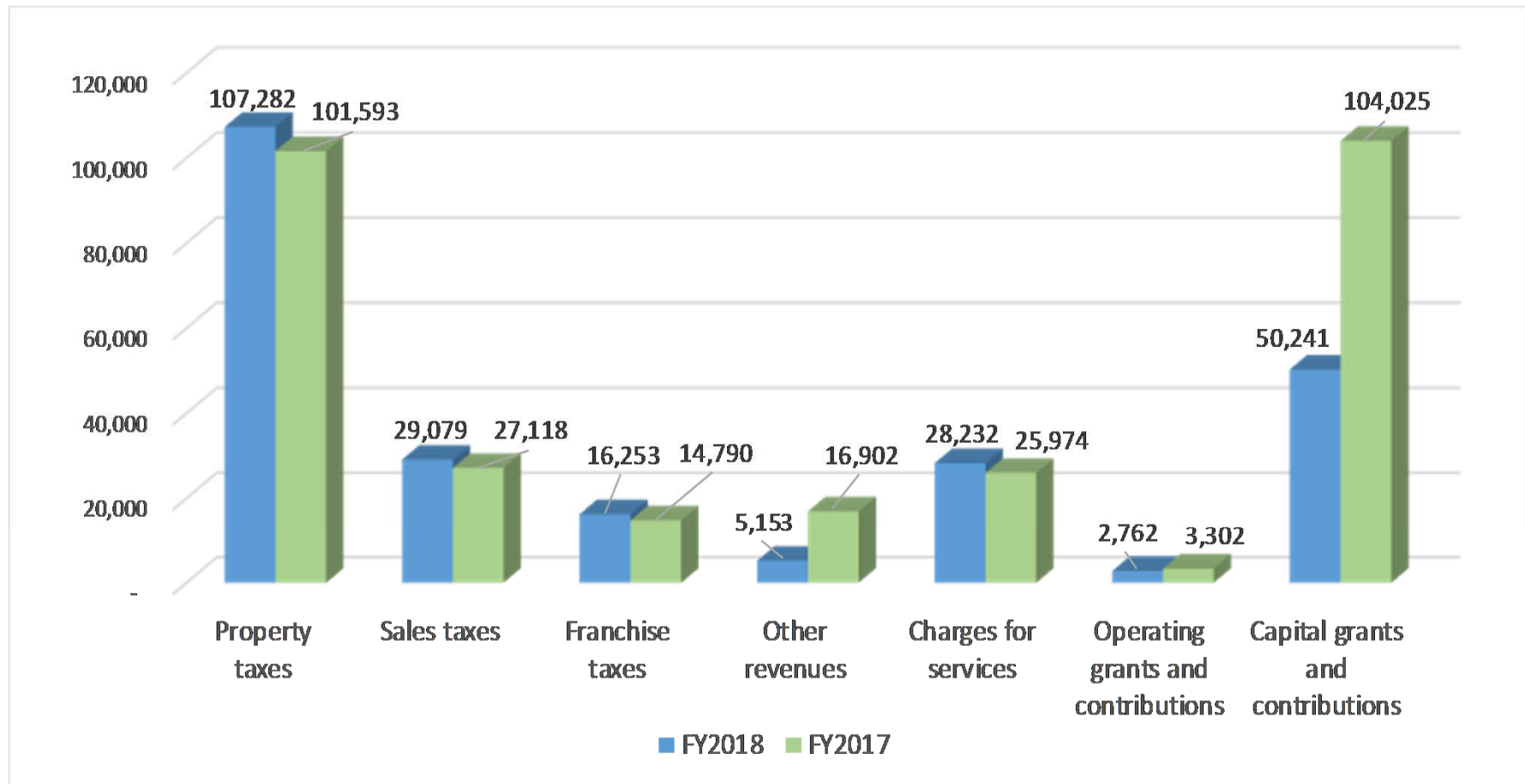


- ▶▶ Government-Wide Financial Statements
- ▶▶ Fund Financial Statements
  - Governmental Fund Financial Statements
    - ▮ Major Funds: General, Debt Service, Capital Projects
  - Proprietary Fund Financial Statements
    - ▮ Major Funds: Water / Wastewater, Airport
- ▶▶ Combining Fund Statements and Schedules
  - Nonmajor Governmental Funds
  - Nonmajor Enterprise Funds
  - Internal Service Funds
  - Component Units

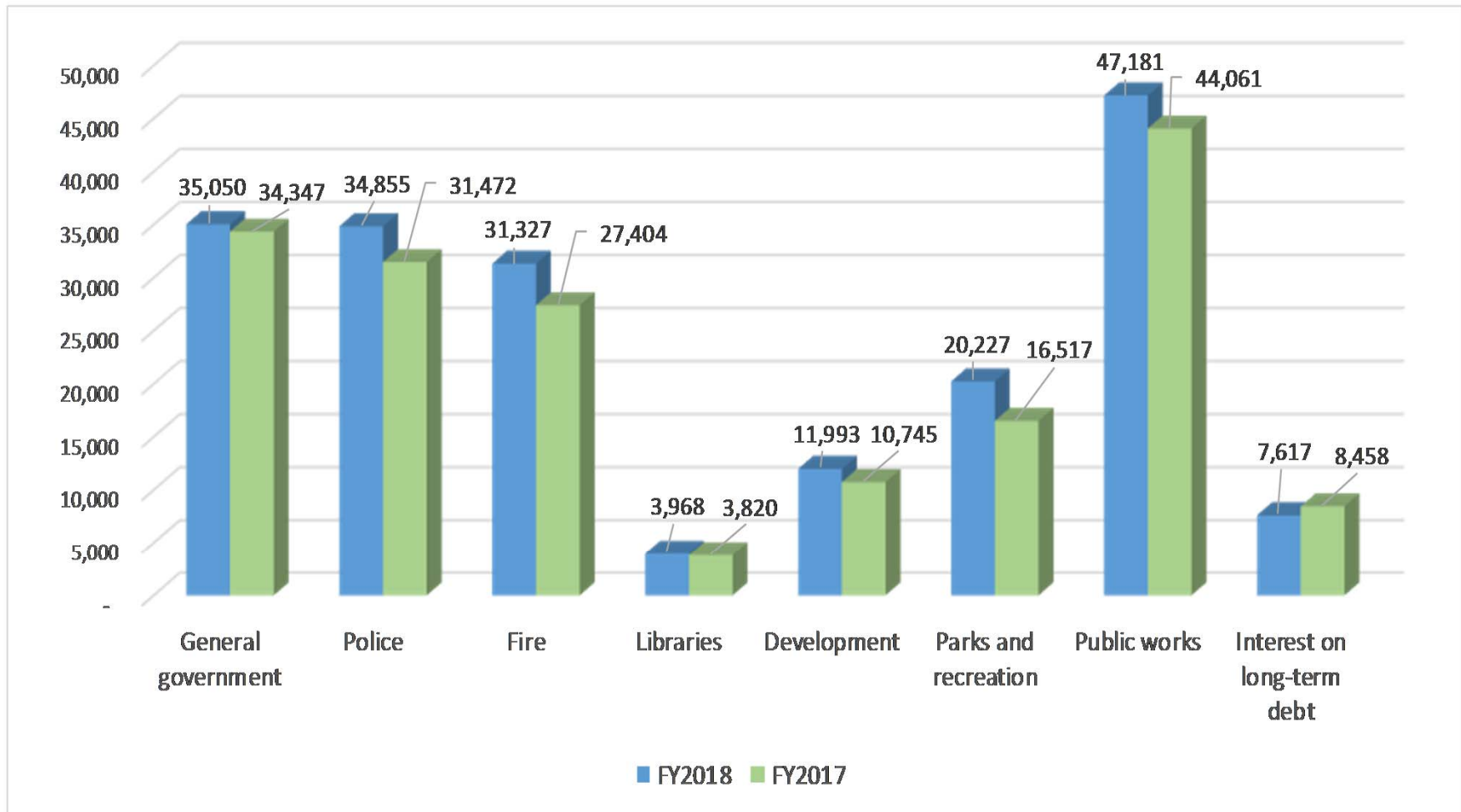
# SUMMARY OF NET POSITION, IN THOUSANDS

	Governmental Activities		Business-type Activities		Total		%Change
	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017	
<b>ASSETS</b>							
Current and other assets	\$ 298,086	\$ 285,977	\$ 207,870	\$ 182,363	\$ 505,956	\$ 468,340	8%
Capital assets	614,647	592,432	498,351	448,123	1,112,998	1,040,555	7%
<b>Total Assets</b>	<u>912,733</u>	<u>878,409</u>	<u>706,221</u>	<u>630,486</u>	<u>1,618,954</u>	<u>1,508,895</u>	<u>7%</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>12,363</u>	<u>17,199</u>	<u>7,231</u>	<u>8,447</u>	<u>19,594</u>	<u>25,646</u>	<u>-24%</u>
<b>LIABILITIES</b>							
Other liabilities	19,775	22,439	12,619	9,782	32,394	32,221	1%
Long-term liabilities outstanding	314,571	302,795	126,211	121,040	440,782	423,835	4%
<b>Total Liabilities</b>	<u>334,346</u>	<u>325,234</u>	<u>138,830</u>	<u>130,822</u>	<u>473,176</u>	<u>456,056</u>	<u>4%</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>6,287</u>	<u>930</u>	<u>791</u>	<u>123</u>	<u>7,078</u>	<u>1,053</u>	<u>572%</u>
<b>NET POSITION</b>							
Net investment in capital assets	440,381	403,720	448,605	391,997	888,986	795,717	12%
Restricted	127,255	96,684	17,302	15,836	144,557	112,520	28%
Unrestricted	16,827	69,040	107,924	100,155	124,751	169,195	-26%
<b>Total Net Position</b>	<u>\$ 584,463</u>	<u>\$ 569,444</u>	<u>\$ 573,831</u>	<u>\$ 507,988</u>	<u>\$ 1,158,294</u>	<u>\$ 1,077,432</u>	<u>8%</u>

# REVENUES BY SOURCE – GOVERNMENTAL ACTIVITIES (IN THOUSANDS)



# EXPENSES BY FUNCTION – GOVERNMENTAL ACTIVITIES (IN THOUSANDS)





## KEY DRIVERS OF CHANGE - GOVERNMENTAL

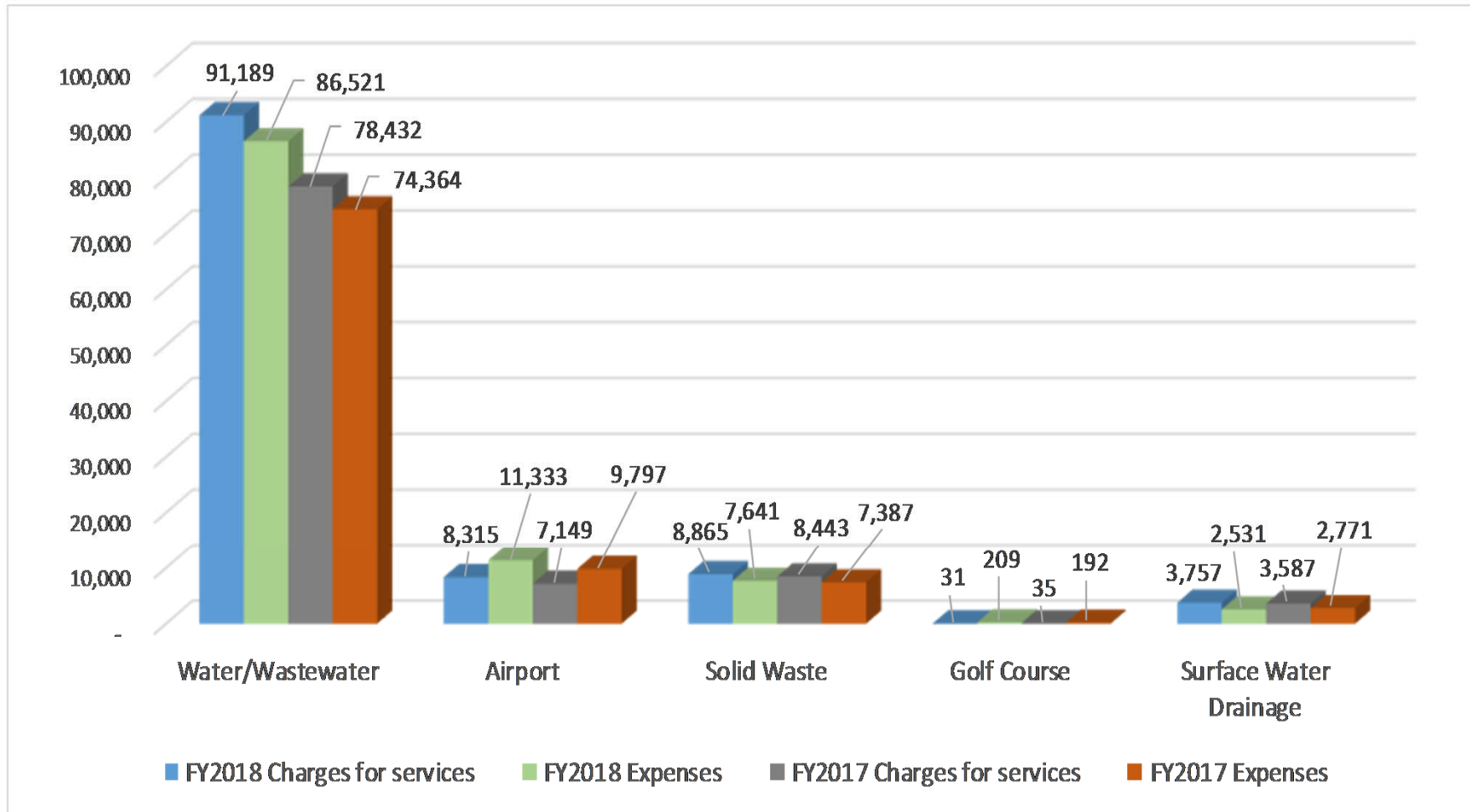
### Revenues

- ▶▶ Property taxes increased \$5.7M due to a 13.4% increase in certified taxable value.
- ▶▶ Sales tax increased \$2M or 7% resulting from population and commercial growth.
- ▶▶ Charges for services increased \$2.3M or 9% due to APEX operations.

### Expenses

- ▶▶ Expenses increased by \$15.4M as the 2018 budget authorized 75 additional positions and a 4% merit pool for a cost of \$10.4M.
- ▶▶ Depreciation expense increased \$4M due to increased capital investment.

# CHARGES FOR SERVICES AND EXPENSES – BUSINESS-TYPE ACTIVITIES (IN THOUSANDS)



# KEY DRIVERS OF CHANGE – BUSINESS-TYPE

## Revenues

- ▶▶ Water / Wastewater increase of \$12.8M or 16% due to 2,400 new accounts and rate increases.
- ▶▶ Airport increase of \$1.1M or 16% due to increased fuel and associated use fees from greater air traffic.
- ▶▶ Capital contributions were \$38.9M from developers.

## Expenses

- ▶▶ Water/Wastewater operating expenses increased by \$10.3M due to \$5.1M increase in water charges from NTMWD.
- ▶▶ Depreciation expense increased \$1.4M due to increased capital investment.

# SUMMARY CAPITAL ASSETS, NET (IN THOUSANDS)

	Governmental Activities		Business-type Activities		Total	
	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017
Land	\$ 37,790	\$ 32,847	\$ 52,373	\$ 29,989	\$ 90,163	\$ 62,836
Works of art	32	26	-	-	32	26
Construction in progress	37,527	36,002	23,662	8,840	61,189	44,842
Buildings	136,763	126,241	27,648	27,693	164,411	153,934
Infrastructure	376,796	375,447	388,886	375,448	765,682	750,895
Machinery and equipment	25,726	21,843	5,782	6,153	31,508	27,996
Service animals	13	26	-	-	13	26
<b>Total</b>	<b>\$ 614,647</b>	<b>\$ 592,432</b>	<b>\$ 498,351</b>	<b>\$ 448,123</b>	<b>\$ 1,112,998</b>	<b>\$ 1,040,555</b>

# OPEB STANDARD ADOPTED

## ***GASB No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pension (required restatement for GAAP to GAAP change)***

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Component Units</u>	<u>Total</u>
Total OPEB liability, GASB 45 (old)	\$ 2,355,235	\$ -	\$ -	\$ 2,355,235
Total OPEB liability, GASB 75 (new)				
Retiree Health Care Plan	\$ 14,400,374	\$ 1,813,360	\$ 290,293	\$ 16,504,027
Supplemental Death Benefit Fund	1,695,134	-	-	1,695,134
	<u>\$ 16,095,508</u>	<u>\$ 1,813,360</u>	<u>\$ 290,293</u>	<u>\$ 18,199,161</u>

# PENSION - TEXAS MUNICIPAL RETIREMENT SYSTEM

	FY2018	FY2017
Net Pension Liability (NPL)	\$34.3M	\$46.4M
Plan fiduciary net position as a % of the total pension liability	87.50%	81.44%

Sensitivity of NPL – FY2018		
1% Decrease (5.75%)	Current Assumption (6.75%)	1% Increase (7.75%)
\$79.3M	\$34.3M	(\$2.1M)

# OPEB - RETIREE HEALTH CARE PLAN

	<b>FY2018</b>	<b>FY2017</b>
Total OPEB Liability	\$16.5M	\$14.5M

## Sensitivity of Total Discount Rate – FY2018

<b>1% Decrease (2.31%)</b>	<b>Current Assumption (3.31%)</b>	<b>1% Increase (4.31%)</b>
\$18.2M	\$16.5M	\$14.9M

## Sensitivity of Healthcare Cost Trend Rate Assumption – FY2018

<b>1% Decrease</b>	<b>Current Assumption</b>	<b>1% Increase</b>
\$14.3M	\$16.5M	\$19.2M

# OPEB - SUPPLEMENTAL DEATH BENEFIT FUND

	<b>FY2018</b>	<b>FY2017</b>
Total OPEB Liability	\$1.7M	\$1.4M

<b>Sensitivity of Changes in Discount Rate— FY2018</b>		
<b>1% Decrease (2.31%)</b>	<b>Current Assumption (3.31%)</b>	<b>1% Increase (4.31%)</b>
\$2.1M	\$1.7M	\$1.4M



# ACCOUNTING UPDATES - GASB STATEMENT 87, LEASES

## Summary

- ▶▶ GASB 87 provides a new framework for accounting for leases under the principle that leases are financings.
- ▶▶ No longer will leases be classified between capital and operating.
- ▶▶ GASB 87 is effective for the City's 2021 fiscal year. Earlier application is encouraged.

## Potential Impact

- ▶▶ Lessees will recognize an intangible asset and a corresponding liability.
- ▶▶ Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset.
- ▶▶ Contracts that contain lease and nonlease components will need to be separated so each component is accounted for accordingly.

# QUESTIONS?

David M. Coleman, CPA // Partner  
dcoleman@bkd.com // 972.702.8262

Andrew Sherwood, CPA // Manager  
asherwood@bkd.com // 972.702.8262

# THANK YOU!

The logo for BKD LLP, featuring the letters "BKD" in a large, bold, sans-serif font. To the right of "BKD" is "LLP" in a smaller font. Below "BKD" is the text "CPAs & Advisors" in a smaller, sans-serif font. The logo is positioned in the bottom right corner of a dark gray rectangular area that occupies the bottom third of the slide. A thin red horizontal bar is visible above the dark gray area.

**BKD**<sup>LLP</sup>  
CPAs & Advisors

City of McKinney, Texas  
Balance Sheet - Governmental Funds  
General Fund \*  
September 30, 2018 (Unaudited)

	General Fund	Capital Equip Replacement	OPEB	APEX	MPAC	Public Art	Disaster Relief	CAFR General Fund Total
<b>ASSETS</b>								
Cash and cash equivalents	\$ 12,267,388	\$ 7,799,262	\$ 1,128,425	\$ 1,627,040	\$ 427,803	\$ 83,964	\$ 16,552	\$ 23,350,434
Investments	41,865,300	2,498,943	3,244,420	-	-	-	500,000	48,108,663
Receivables (net of allowance for uncollectibles):								
Delinquent property taxes	643,534	-	-	-	-	-	-	643,534
Accounts	3,036,150	-	-	21,741	3,725	-	-	3,061,616
Notes	1,156,052	-	-	-	-	-	-	1,156,052
Other taxes and fees	7,985,388	-	-	-	-	-	-	7,985,388
Accrued interest	275,333	469	1,499	-	-	-	-	277,301
Due from other funds	343,135	-	-	-	-	-	-	343,135
Due from other governments	87,831	-	-	-	-	-	-	87,831
Inventory	44,571	-	-	-	-	-	-	44,571
Prepaid items	7,351,720	321,679	-	1,171	-	-	-	7,674,570
<b>Total assets</b>	<b>75,056,402</b>	<b>10,620,353</b>	<b>4,374,344</b>	<b>1,649,952</b>	<b>431,528</b>	<b>83,964</b>	<b>516,552</b>	<b>92,733,095</b>
<b>LIABILITIES</b>								
Accounts payable	\$ 4,064,028	\$ 347,712	\$ -	\$ 102,535	\$ 17,608	\$ -	\$ -	\$ 4,531,883
Other accrued liabilities	5,401,139	24,810	-	81,230	36,949	-	-	5,544,128
Deposits	1,197,180	-	-	-	-	-	-	1,197,180
Unearned revenue	21,172	-	-	879,282	-	-	-	900,454
<b>Total liabilities</b>	<b>10,683,519</b>	<b>372,522</b>	<b>-</b>	<b>1,063,047</b>	<b>54,557</b>	<b>-</b>	<b>-</b>	<b>12,173,645</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>								
Unavailable revenue	3,666,836	-	-	-	-	-	-	3,666,836
<b>Total deferred inflows of resources</b>	<b>3,666,836</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,666,836</b>
<b>FUND BALANCES</b>								
NONSPENDABLE:								
Inventory	44,571	-	-	-	-	-	-	44,571
Prepaid items	7,351,720	321,679	-	1,171	-	-	-	7,674,570
RESTRICTED:								
Courts/Law enforcement	412,412	-	-	-	-	-	-	412,412
ASSIGNED:								
Capital equip replacement	-	9,926,152	-	-	-	-	-	9,926,152
Disaster relief	-	-	-	-	-	-	516,552	516,552
Public & performing arts	-	-	-	-	376,971	83,964	-	460,935
OPEB	-	-	4,374,344	-	-	-	-	4,374,344
UNASSIGNED	52,897,344	-	-	585,734	-	-	-	53,483,078
<b>Total fund balances</b>	<b>60,706,047</b>	<b>10,247,831</b>	<b>4,374,344</b>	<b>586,905</b>	<b>376,971</b>	<b>83,964</b>	<b>516,552</b>	<b>76,892,614</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 75,056,402</b>	<b>\$ 10,620,353</b>	<b>\$ 4,374,344</b>	<b>\$ 1,649,952</b>	<b>\$ 431,528</b>	<b>\$ 83,964</b>	<b>\$ 516,552</b>	<b>\$ 92,733,095</b>

City of McKinney, Texas  
Statement of Revenues, Expenditures and Changes in Fund Balances  
General Funds\*  
September 30, 2018 (Unaudited)

	General Fund	Capital Equip Replacement	OPEB	APEX	MPAC	Public Art	Disaster Relief	CAFR General Fund Total
<b>REVENUES</b>								
Property taxes	\$ 73,847,744	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 73,847,744
Sales and use taxes	25,213,079	-	-	-	-	-	-	25,213,079
Franchise fees	16,167,036	-	-	-	-	-	-	16,167,036
Licenses and permits	11,495,904	-	-	-	-	-	-	11,495,904
Intergovernmental	997,924	-	-	-	-	-	-	997,924
Charges for services	5,152,986	-	-	4,544,076	314,115	-	-	10,011,177
Fines and forfeitures	1,981,919	-	-	-	-	-	-	1,981,919
Investment income	624,568	223,466	57,213	14,655	1,889	-	-	921,791
Contributions	22,643	-	-	11,000	396,741	10,750	-	441,134
Miscellaneous	763,541	-	-	27,593	2,285	-	-	793,419
<b>Total revenues</b>	<b>136,267,344</b>	<b>223,466</b>	<b>57,213</b>	<b>4,597,324</b>	<b>715,030</b>	<b>10,750</b>	<b>-</b>	<b>141,871,127</b>
<b>EXPENDITURES</b>								
Current:								
General government	26,716,168	13,183	-	-	-	-	-	26,729,351
Police	33,105,385	79,154	-	-	-	-	-	33,184,539
Fire	27,821,014	45,821	-	-	-	-	-	27,866,835
Libraries	3,513,383	-	-	-	-	-	-	3,513,383
Development	10,798,904	227	-	-	-	-	-	10,799,131
Parks and recreation	9,340,401	850,579	-	4,000,419	693,063	21,500	-	14,905,962
Public works	11,253,035	273,701	-	-	-	-	-	11,526,736
Economic Incentives	117,241	-	-	-	-	-	-	117,241
Debt Service:								
Principal retirement	-	291,915	-	-	-	-	-	291,915
Interest and fiscal charges	-	29,764	-	-	-	-	-	29,764
Capital expenditures:								
General government	35,409	321,552	-	-	-	-	-	356,961
Police	529,796	845,138	-	-	-	-	-	1,374,934
Fire	2,178,030	1,384,709	-	-	-	-	-	3,562,739
Development	165,959	221,211	-	-	-	-	-	387,170
Parks and recreation	160,299	415,033	-	10,001	6,000	-	-	591,333
Public works	195,943	1,632,977	-	-	-	-	-	1,828,920
<b>Total expenditures</b>	<b>125,930,967</b>	<b>6,404,964</b>	<b>-</b>	<b>4,010,420</b>	<b>699,063</b>	<b>21,500</b>	<b>-</b>	<b>137,066,914</b>
Excess (deficiency) of revenues over (under) expenditures	10,336,377	(6,181,498)	57,213	586,904	15,967	(10,750)	-	4,804,213
<b>OTHER FINANCING SOURCES (USES)</b>								
Proceeds from sale of property	253,724	-	-	-	-	-	-	253,724
Transfers in	2,831,630	425,100	-	-	15,000	-	-	3,271,730
Transfers out	(11,913,000)	-	-	-	-	-	-	(11,913,000)
Intrafund Transfers	(5,452,161)	4,421,684	1,000,000	-	-	30,477	-	-
<b>Total other financing sources (uses)</b>	<b>(14,279,807)</b>	<b>4,846,784</b>	<b>1,000,000</b>	<b>-</b>	<b>15,000</b>	<b>30,477</b>	<b>-</b>	<b>(8,387,546)</b>
Net change in fund balances	(3,943,430)	(1,334,714)	1,057,213	586,904	30,967	19,727	-	(3,583,333)
Fund balances, beginning of year	64,649,478	11,582,545	3,317,131	-	346,004	64,237	516,552	80,475,947
Fund balances, end of year	<u>\$ 60,706,048</u>	<u>\$ 10,247,831</u>	<u>\$ 4,374,344</u>	<u>\$ 586,904</u>	<u>\$ 376,971</u>	<u>\$ 83,964</u>	<u>\$ 516,552</u>	<u>\$ 76,892,614</u>