

A photograph of classical columns, likely from a government building, with a dark grey semi-transparent overlay at the bottom.

CITY OF MCKINNEY, TEXAS

FISCAL YEAR 2017 AUDIT COMMITTEE PRESENTATION

PRESENTED BY:

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CPAs & Advisors

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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 The Major Program; Report on Internal Control Over Compliance and Report on Schedule of Expenditures of Federal Awards

REQUIRED COMMUNICATION

- ▶▶ There were no material weaknesses or significant deficiencies in internal controls identified during the audit.
- ▶▶ During fiscal year 2017, the City received its Certificate of Achievement of Excellence in Financial Reporting for its 2016 CAFR. This was the 33rd consecutive year the City has received this prestigious award.
- ▶▶ There were audit adjustments to correct beginning fund balance differences, update debt issuance journal entries and eliminate double counting of investment premiums. Additionally, there was one passed audit adjustment related to accrual of a legal liability.
- ▶▶ For fiscal year 2017, the City had one major federal award program that required testing, the Community Development Block Grant. We identified no compliance or internal control matters related to this program during our single audit testing.

BASIC FINANCIAL STATEMENTS

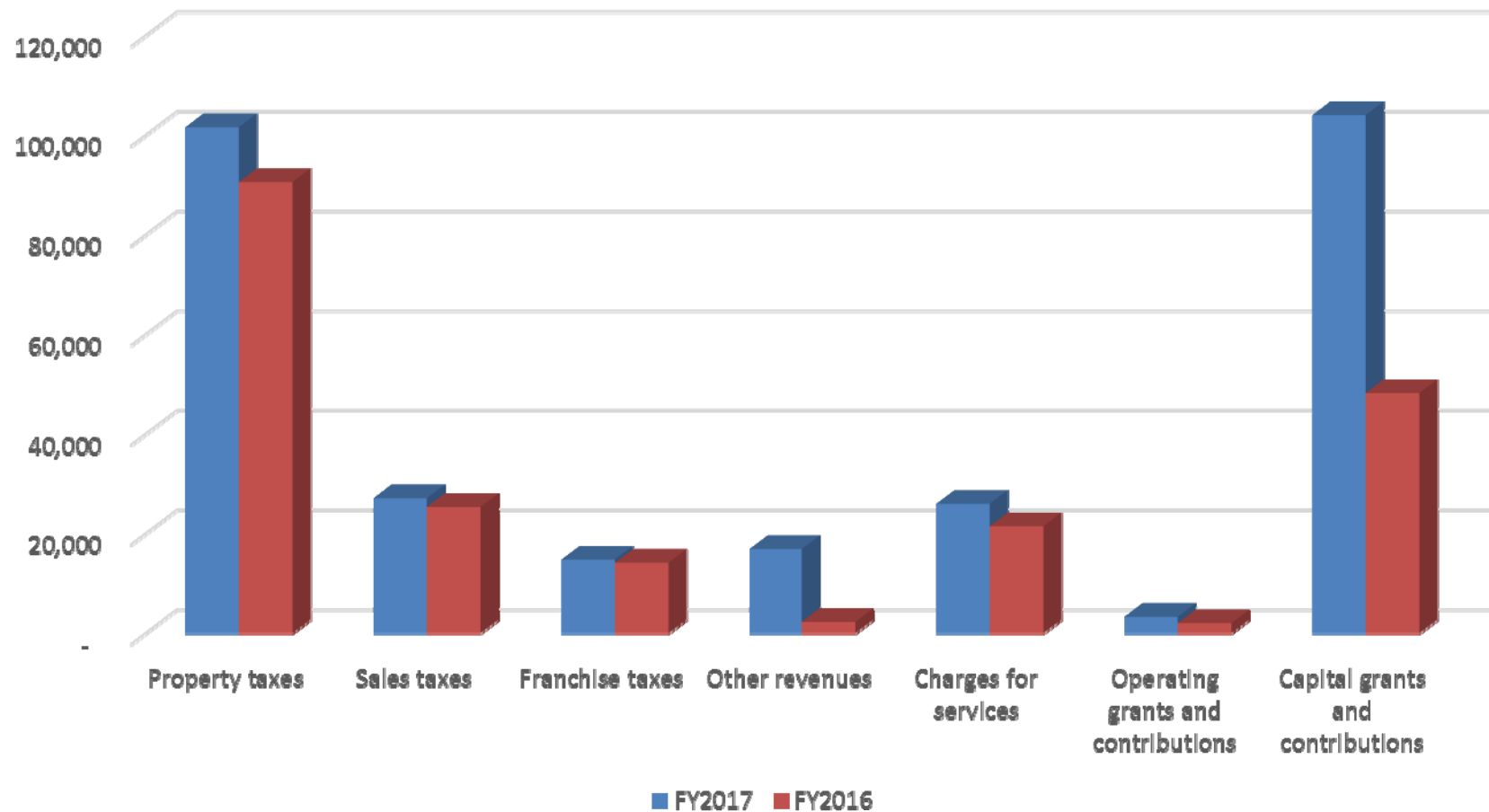


- ▶▶ Government-Wide Financial Statements
- ▶▶ Fund Financial Statements
 - Governmental Fund Financial Statements
 - ▮ Major Funds: General, Debt Service, Capital Projects
 - Proprietary Fund Financial Statements
 - ▮ Major Funds: Water / Wastewater, Airport
- ▶▶ Combining Fund Statements and Schedules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

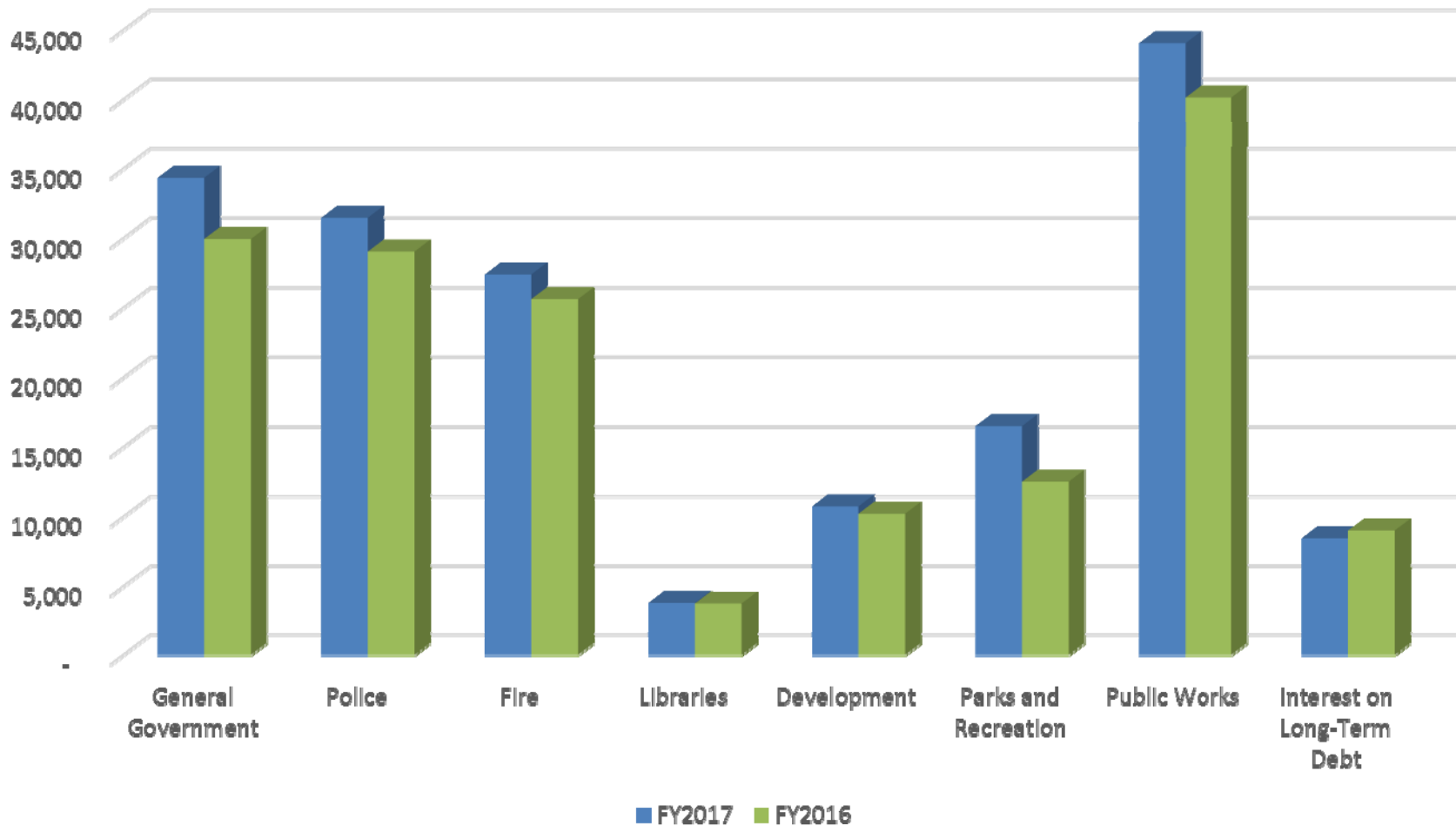
SUMMARY OF NET POSITION, IN THOUSANDS

	Governmental Activities		Business-type Activities		Total		
	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016	% Change
ASSETS							
Current and other assets	\$ 285,977	\$ 264,997	\$ 182,363	\$ 130,642	\$ 468,340	\$ 395,639	18%
Capital assets	592,432	511,472	448,123	427,219	1,040,555	938,691	11%
Total Assets	<u>878,409</u>	<u>776,469</u>	<u>630,486</u>	<u>557,861</u>	<u>1,508,895</u>	<u>1,334,330</u>	13%
DEFERRED OUTFLOWS OF RESOURCES	<u>17,199</u>	<u>18,243</u>	<u>8,447</u>	<u>8,387</u>	<u>25,646</u>	<u>26,630</u>	-4%
LIABILITIES							
Other liabilities	22,439	23,464	9,782	7,908	32,221	31,372	3%
Long-term liabilities outstanding	302,795	319,131	121,040	85,781	423,835	404,912	5%
Total Liabilities	<u>325,234</u>	<u>342,595</u>	<u>130,822</u>	<u>93,689</u>	<u>456,056</u>	<u>436,284</u>	5%
DEFERRED INFLOWS OF RESOURCES	<u>930</u>	<u>1,151</u>	<u>123</u>	<u>149</u>	<u>1,053</u>	<u>1,300</u>	-19%
NET POSITION							
Net investment in capital assets	403,720	320,331	391,997	370,316	795,717	690,647	15%
Restricted	96,684	86,358	15,836	12,746	112,520	99,104	14%
Unrestricted	69,040	44,277	100,155	89,348	169,195	133,625	27%
Total Net Position	<u>\$ 569,444</u>	<u>\$ 450,966</u>	<u>\$ 507,988</u>	<u>\$ 472,410</u>	<u>\$ 1,077,432</u>	<u>\$ 923,376</u>	17%

REVENUES BY SOURCE – GOVERNMENTAL ACTIVITIES (IN THOUSANDS)



EXPENSES AND PROGRAM REVENUES BY FUNCTION – GOVERNMENTAL ACTIVITIES (IN THOUSANDS)



KEY DRIVERS OF CHANGE - GOVERNMENTAL

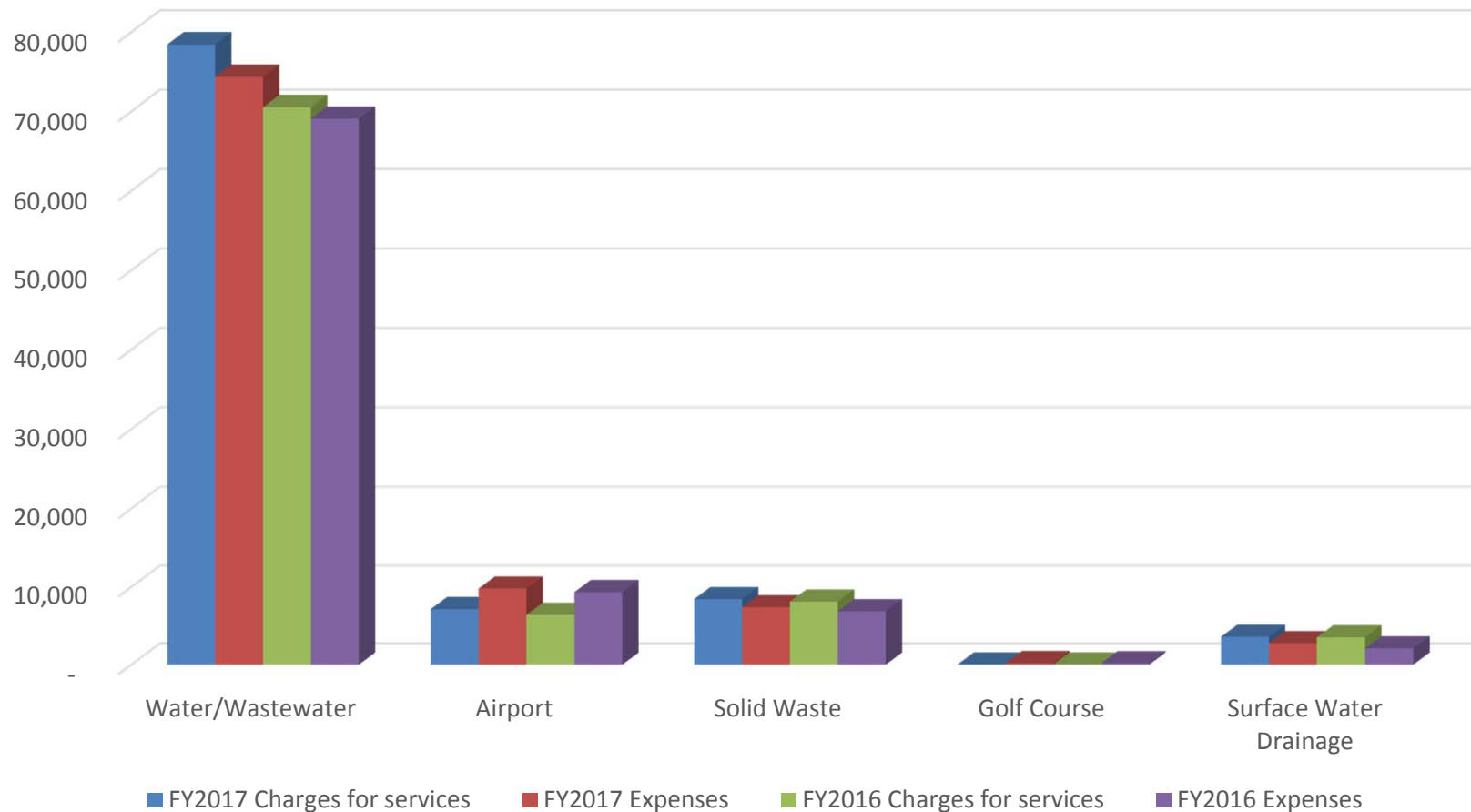
Revenues

- ▶▶ Property taxes increased \$11M or 12% due to increased assessed property values.
- ▶▶ Charges for services increased \$4.5M or 21% due to 20% increase in building permits.
- ▶▶ Miscellaneous revenue increase of \$9M due to release of liability in Library lawsuit from 2014.

Expenses

- ▶▶ General government increased \$4.4M or 14% primarily due economic incentives.
- ▶▶ Operations of the APEX Centre increased Parks and Recreation expenses by \$3M, offset by charges for service from operations by \$2.4M.

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



KEY DRIVERS OF CHANGE – BUSINESS-TYPE

Revenues

- ▶▶ Water / Wastewater & Solid Waste increases of \$8.6M or 11% due to 2,900 new meters.
- ▶▶ Airport increase of \$738K due to increased fuel sales volumes.

Expenses

- ▶▶ Water/Wastewater expenses increased by \$5.3M or 8% primarily due to an increased water rate of 8%.
- ▶▶ Surface Water Drainage costs increased by \$672K due to increased drainage maintenance projects.

SUMMARY CAPITAL ASSES, NET (IN THOUSANDS)

	Governmental Activities		Business-type Activities		Total	
	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016
Land	\$ 32,847	\$ 32,487	\$ 29,989	\$ 30,431	\$ 62,836	\$ 62,918
Works of art	26	18	-	-	26	18
Construction in progress	36,002	19,757	8,840	22,560	44,842	42,317
Buildings	126,241	93,583	27,693	29,118	153,934	122,701
Infrastructure	375,447	346,823	375,448	339,970	750,895	686,793
Machinery and equipment	21,843	18,772	6,153	5,140	27,996	23,912
Service animals	26	32	-	-	26	32
Total	\$ 592,432	\$ 511,472	\$ 448,123	\$ 427,219	\$1,040,555	\$ 938,691

SUMMARY OF OUTSTANDING DEBT (IN THOUSANDS)

	Governmental Activities		Business-type Activities		Total	
	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016
General obligation bonds, certificates of obligations and tax notes (backed by the City)	\$ 247,904	\$ 268,256	\$ -	\$ -	\$ 247,904	\$ 268,256
Revenue bonds (backed by fee revenues)	-	-	114,747	79,938	114,747	79,938
Totals	<u>\$ 247,904</u>	<u>\$ 268,256</u>	<u>\$ 114,747</u>	<u>\$ 79,938</u>	<u>\$ 362,651</u>	<u>\$ 348,194</u>

PENSION - TEXAS MUNICIPAL RETIREMENT SYSTEM

	FY2017	FY2016
Net Pension Liability (NPL)	\$46.4M	\$44.1M
Plan fiduciary net position as a % of the total pension liability	81.44%	80.62%

Sensitivity of NPL – FY2017		
1% Decrease (5.75%)	Current Assumption (6.75%)	1% Increase (7.75%)
\$87.7M	\$46.4M	\$13M

ACCOUNTING UPDATES - GASB STATEMENT 75, ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSION

Summary

- ▶▶ GASB 75 requires governments to report a liability on the face of the financial statements.
- ▶▶ GASB 75 requires more extensive note disclosures and required supplementary information (RSI) about the OPEB liabilities. GASB 75 is effective for the City's 2018 fiscal year, and requires restatement of any prior years presented, if practical.

Potential Impact

- ▶▶ Net OPEB Obligation: \$14.2M
- ▶▶ Similar to the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the adoption of 75 will require advance coordination with plans and actuaries so that the required information is available.

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.

ACCOUNTING UPDATES - GASB PROPOSES CHANGES TO CAPITALIZED INTEREST REQUIREMENTS

Current Standards

- ▶▶ Governments currently are required to capitalize interest cost incurred during the period of construction in business-type activities and enterprise funds.
- ▶▶ Governments are not allowed to capitalize interest cost in governmental activities.

Proposed Changes

- ▶▶ Current Exposure Draft proposes for governments to recognize all interest cost as an expense or expenditure of the period.
 - Would apply to business-type, governmental activities and all fund financial statements.
- ▶▶ Proposed effective date is for periods beginning after December 15, 2018. Governments would discontinue capitalizing interest at implementation but would not be required to revalue assets to which interest was capitalized in the past.
- ▶▶ Comments on the Exposure Draft are due March 5, 2018. GASB expects to issue a final standard in the summer of 2018.

QUESTIONS?

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THANK YOU!

