



# CITY OF EL PASO, TEXAS

## FY2018 AUDIT PRESENTATION

PRESENTED BY:

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RACHEL ORMSBY, CPA, SENIOR MANAGER

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

# OUR GOALS FOR TODAY

**1** Audit Approach and Timeline

**2** Comprehensive Annual Financial Report (CAFR) Overview

**3** Basic Financial Statements

**4** Audit Scope and Results

**5** Pensions

**6** Single Audit

**7** Accounting Updates

# AUDIT APPROACH AND TIMELINE

## OUR FIVE-PHASE APPROACH TO FINANCIAL STATEMENT AUDITS

1 » Planning

2 » Risk Assessment

3 » Fieldwork, Testing &  
Further Audit Procedures

4 » Report &  
Communications Delivery

5 » Presentation

- ▶▶ July & August – behind the scenes
  - Delivery of PBC list and internal control forms
  - Pre-audit team planning meeting with management
- ▶▶ September & October – laying the foundation
  - Entrance conference with management
  - Planning / Internal Control Analysis and Walkthroughs
  - Interviews with key management, confirmation work & review of City Council meeting minutes
  - Single Audit testing and analysis based on receipt of preliminary Schedule of Expenditures of Federal and State Awards
- ▶▶ November & December – full team resources
  - Final trial balances delivered
  - Audit fieldwork, focused on your areas of risk
  - Assistance with document requests by City personnel
  - Exit conference with management
- ▶▶ January & February – wrap-up and report delivery
  - Draft CAFR delivered
  - Concurring reviewer independent final review
  - Delivery of all audit and agreed-upon procedure deliverables

# DELIVERABLES

## Audited by BKD

- ▶▶ City of El Paso – CAFR & Single Audit
- ▶▶ City Employees’ Pension Fund
- ▶▶ City of El Paso International Airport and PFC Audit
- ▶▶ Chapter 59 Asset Forfeiture Report – AUP
- ▶▶ Texas Commission on Environmental Quality - AUP
- ▶▶ National Transit Database Federal Funding Allocation Data – AUP
- ▶▶ National Transit Database Uniform System of Accounts - AUP

## Audited by Other Auditors

- ▶▶ El Paso Water Utilities
- ▶▶ El Paso Firemen and Policemen’s Pension Fund

# COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) OVERVIEW



- ▶▶ Letter of Transmittal
- ▶▶ Certificate of Achievement for Excellence in Financial Reporting – **the City has received this prestigious award for 18 consecutive years**
- ▶▶ Independent Auditor’s Report
- ▶▶ Management’s Discussion and Analysis
- ▶▶ Basic Financial Statements
- ▶▶ Notes to Basic Financial Statements
- ▶▶ Required Supplementary Information
- ▶▶ Statistical Section

# BASIC FINANCIAL STATEMENTS



- ▶▶ Government-Wide Financial Statements
- ▶▶ Fund Financial Statements
  - Governmental Fund Financial Statements
    - ▮ Major Funds: General Fund, CDBG, Debt Service, and Capital Projects
  - Proprietary Fund Financial Statements
    - ▮ Major Funds: Airport, Environmental Services, Mass Transit, International Bridges, Tax Office
  - Fiduciary Fund Financial Statements
    - ▮ Pension Trust Funds, Agency Funds
- ▶▶ Combining Fund Statements and Schedules
  - Nonmajor Governmental Funds
  - Internal Service Funds
  - Pension Trust Funds
  - Fiduciary Funds

# AUDIT RESULTS – UNMODIFIED “CLEAN” OPINIONS



- ▶▶ Independent Auditor’s Report on Basic Financial Statements
- ▶▶ 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* – Independent Auditor’s Report
- ▶▶ Report on Compliance for Each Major Federal and State Program; Report on Internal Control Over Compliance; Report on Schedule of Expenditures of Federal and State Awards Required by Uniform Guidance and State of Texas *UGMS* – Independent Auditor’s Report

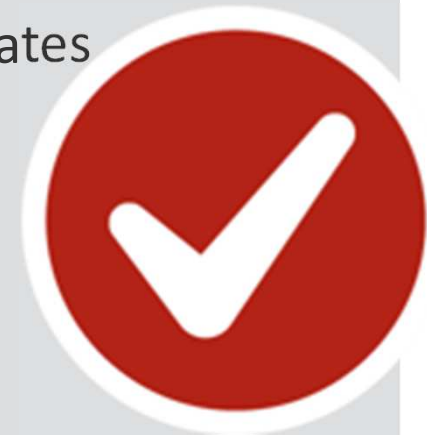
# AUDIT SCOPE AND RESULTS

## ▶▶ Significant Accounting Policies

- The City's significant accounting policies are described in *Note 1* of the audited financial statements.

## ▶▶ Management Judgments and Accounting Estimates

- Receivables (property tax, ambulance, etc.)
- Allowance for uncollectible receivables
- Fair value of investments
- Self-insured liabilities
- Compensated absences
- Net pension liability
- Other post-employment benefits liability
- Landfill closure and post-closure care liabilities
- Depreciation of capital assets
- Loss contingencies



# AUDIT SCOPE AND RESULTS



## ▶▶ Financial Statement Disclosures

- Net pension liability
- Determination of fair values
- Loss contingencies
- Restatement related to the adoption of GASB Statement No. 75 OPEB and related disclosures

## ▶▶ Proposed Audit Adjustments Recorded

- Net position and fund balances
- Various revenue and expense reclassification entries for reporting purposes

# PENSION - CITY EMPLOYEES' PENSION FUND

	<b>FY2018</b>	<b>FY2017</b>
Net Pension Liability (NPL)	\$199.9M	\$222.7M
Plan fiduciary net position as a % of the total pension liability	79.52%	76.46%

<b>Sensitivity of NPL – FY2018</b>		
<b>1% Decrease (6.5%)</b>	<b>Current Assumption (7.5%)</b>	<b>1% Increase (8.5%)</b>
\$322.6M	\$199.8M	\$104.5M

# PENSION - FIREMEN'S AND POLICEMEN'S PENSION FUNDS

	FY2018	FY2017
Net Pension Liability (NPL) – Firemen Division	\$145.8M	\$172.0M
Plan fiduciary net position as a % of the total pension liability	80.50%	75.37%
Net Pension Liability (NPL) – Policemen Division	\$207.2M	\$228.1M
Plan fiduciary net position as a % of the total pension liability	80.80%	77.12%

Sensitivity of NPL – FY2018			
Division	1% Decrease (6.75%)	Current Assumption (7.75%)	1% Increase (8.75%)
Firemen	\$251.3M	\$145.8M	\$60.2M
Policemen	\$360.1M	\$207.2M	\$83.4M

# MAJOR FEDERAL AND STATE PROGRAMS FOR THE YEAR ENDED AUGUST 31, 2018

Major Cluster/Program	Department	CFDA #	Audit Results
Special Supplemental Nutrition Program for Women, Infants, and Children	Public Health	10.557	\$5.6M of expenditures; unmodified opinion
Airport Improvement Program	Airport	20.106	\$14.5M of expenditures; unmodified opinion
Alternative Analysis	Sun Metro	20.522	\$5.5M of expenditures; unmodified opinion
Local Border Security Program (LBSP)	Police	State	\$356K of expenditures; unmodified opinion
Texas Anti-Gang (TAG) Program	Police	State	\$1.2M of expenditures; unmodified opinion

# 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. The City implemented GASB 75 during FY2018 and required a restatement of prior year.

## Impact

- ▶▶ Restatement to beginning of year net position as follows:
  - Governmental Activities: (41,257,405)
  - Airport: (2,806,696)
  - Environmental Services: (3,723,248)
  - Mass Transit: (5,738,682)
  - International Bridges: (669,318)
- ▶▶ Refer to *Note 1* (page 30 of 2018 CAFR) for further discussion.

# ACCOUNTING UPDATES - GASB STATEMENT 84, *FIDUCIARY ACTIVITIES*

## Summary

- ▶▶ GASB 84 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.
- ▶▶ GASB 84 is effective for the City's 2020 fiscal year.

# 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?

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# THANK YOU!

**BKD**<sup>LLP</sup>  
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