

**CITY OF RICHARDSON
CITY COUNCIL AUDIT COMMITTEE
CIVIC CENTER/CITY HALL**
Suite 202, Large Conference Room
411 W. Arapaho Road
Richardson, Texas 75080

**FEBRUARY 4, 2013
4:00 p.m.**

AGENDA

- 1.** Review and Discuss FY 2011-12 Comprehensive Annual Financial Report (CAFR) and Report to Those Charged with Governance.
- 2.** Review and Discuss FY 2011-12 OMB Circular A-133 Report for Federal Funds.

I certify the above notice was posted on the bulletin board at the Civic Center/City Hall on Friday, February 1, 2013 at 4:00 p.m.

Vickie Schmid, Deputy City Secretary

This building is wheelchair accessible. Any requests for sign interpretive services must be made 48 hours ahead of the meeting. To make arrangements, call (972) 744-4100 or (972) 744-4001.



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City of Richardson

Bill Hanley, Partner
Stewart Berkinshaw, Senior Manager

Meeting with the Audit Committee

February 4, 2013

Agenda

- Responsibilities
- Required communications (see separate communication With Those Charged With Governance)
- Audit process
- Reports issued
- Results of audit
- Use of others
- Internal control and business observations
- Other matters
- New accounting standards and their application to the City
- Questions and comments

Responsibilities

Management is responsible for:

- Adopting sound accounting policies
- Fairly presenting the financial statements in conformity with generally accepted accounting principles
- Establishing and maintaining effective internal control over financial reporting
- Identifying and confirming that the City complies with laws and regulations applicable to its activities
- Making all financial records and related information available to the auditor
- Providing the auditor with a letter confirming certain representations made during the audit that includes, but are not limited to management's:
 - disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the City's ability to record, process, summarize, and report financial data; and
 - acknowledgement of their responsibility for the design and implementation of programs and controls to prevent and detect fraud

The Audit Committee is responsible for:

- Oversight of the financial reporting process and internal control over financial reporting

Management and the Audit Committee are responsible for:

- Establishing and maintaining internal controls to prevent, deter, and detect fraud
- Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards

The audit of the financial statements does not relieve management or the Audit Committee of their responsibilities.

Responsibilities (continued)

KPMG is responsible for:

- Forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit Committee are presented fairly, in all material respects, in conformity with generally accepted accounting principles
- Planning and performing the audit to obtain reasonable – not absolute – assurance about whether the financial statements are free of material misstatement, whether caused by fraud or error. Because of the nature of audit evidence and the characteristics of fraud, we are able to obtain reasonable, but not absolute, assurance that material misstatements will be detected.
- Evaluating:
 - (a) whether the City’s controls sufficiently address identified risks of material misstatement due to fraud; and
 - (b) controls intended to address the risk of management override of other controls
- Communicating to you in writing all significant deficiencies and material weaknesses in internal control identified in the audit and reporting to management all deficiencies noted during our audit that are of sufficient importance to merit management's attention
- Conducting our audit in accordance with professional standards
- Complying with the rules and regulations of the Code of Professional Conduct of the American Institute of Certified Public Accountants, and the ethical standards of relevant CPA societies and relevant state boards of accountancy
- Planning and performing our audit with an attitude of professional skepticism
- Communicating all required information, including significant matters, to management and the Audit Committee

Required communications

Statement on Auditing Standards (SAS):

- SAS 114 – See separate report on Communication With Those Charged With Governance

Audit Process

Performed risk assessment interviews and tests of internal controls

Key Areas of Substantive Testing:

- Cash and Investments
- Receivables
- Capital Assets
- Accrued Liabilities (OPEB, Pension, Compensated Absences)
- Debt
- Major Revenue and Expenditure/Expense Items
- Financial Reporting (Post-closing entries and GASB 34 conversion entries)

OMB Circular A-133 Procedures:

- Control testing over major program (Energy Efficiency and Conservation Block Grant - ARRA)
- Compliance testing over major program in accordance with OMB Compliance Supplement and Grant Agreements, including the American Recovery and Reinvestment Act (ARRA)

Reports issued

Reports Issued:

- Comprehensive Annual Financial Report (CAFR)
- OMB Circular A-133 Reports

Results of audit

- Unqualified “Clean” Opinions
- No deficiencies in internal control identified
- No uncorrected audit misstatements and no corrected audit misstatements
- Open and Effective Communication with Management
- Other Significant Transactions –
 - The City issued \$14.8M in General Obligation Refunding Bonds, which will result in a cash flow savings of \$2.1M. The City also issued \$6.6M in Certificates of Obligation (\$865k in Solid Waste and \$5.8M in Capital Fund) for various construction and improvement projects and capital asset purchases. The City issued \$275k in Taxable Certificates of Obligation for the demolition of dangerous structures.
 - The City acquired properties for future economic development in 2012 with a net realizable value of \$2,495,127.
- Changes in Estimates –
 - None noted

Use of others

Use of KPMG Specialists:

- KPMG Actuary review of Retiree Health Plan (OPEB) and Pension Plan every three years or when new actuarial study is performed with significant changes in underlying assumptions. KPMG Actuary reviewed the OPEB and Pension Plan in fiscal year 2011.

Internal control and business observations

- Positive control environment and proactive attitudes
- No deficiencies in internal control
- No compliance findings in audit of federal or state awards expended

Other Matters

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| Going Concern | None noted |
| Related Party Transactions | None noted, except for the Richardson Improvement Corporation (RIC). The RIC is a nonprofit corporation that serves the citizens of the City by improving municipal parks and recreational facilities through land acquisition and the development of parks. The City provides all financial support to RIC and all members of its governing board are appointed by City Council. |
| Litigations, Claims, and Assessments | None noted with a material financial statement impact |
| Illegal Acts or Fraud | None noted |
| Non-compliance with Laws and Regulations | None noted |

Other Matters (continued)

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| Other Information in Documents Containing Audited Financial Statements | <p>Required Supplementary Information: management discussion and analysis, budgetary information, and schedules of funding progress</p> <p>Other Information: introductory section, combining financial statements, and statistical section</p> |
| Significant Difficulties Encountered During the Audit | No matters to report |
| Disagreements with Management | No matters to report |
| Management's Consultation with Other Accountants | No matters to report |
| Significant Issues Discussed, or Subject to Correspondence, with Management | No matters to report |
| Alternative Accounting Treatments Discussed with Management | No matters to report |
| Other Findings or Issues Relevant Regarding Oversight of the Financial Reporting Process | No matters to report |
| Communications with the Firm's National Office | No matters to report |

New accounting standards and their application to the City

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 15 and No. 34* – modifies requirements for financial reporting presentation of component units. Requires that entities that were blended with the primary government due to structure of the governing body, also meet the criteria related to financial benefit/burden and/or operational responsibility. This Statement will be effective for the City in the fiscal year ending September 30, 2013.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* - provides guidance for reporting deferred outflows of resources and deferred inflows of resources outside of total assets and liabilities. Additionally, the Statement requires a new Statement of Net Position to replace the current Statement of Net Assets. Only requires reporting of deferred inflows/outflows for derivative instruments (GASB 53) and service concession arrangements (GASB 60). This Statement will be effective for the City in fiscal year ending September 30, 2013.

New accounting standards and their application to the City

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* – the objective of the Statement is to determine whether certain balances currently reported as assets and liabilities should continue to be reported as such or instead be reported as: a deferred outflow of resources or an outflow of resources (expense/expenditure); a deferred inflow of resources or an inflow of resources (revenue). This Statement will be effective for the City in the fiscal year ending September 30, 2014, with early adoption allowed.
- GASB Statement No. 66, *Technical Corrections – 2012* – the objective of this Statement is to resolve conflicting accounting and financial reporting guidance that resulted from the issuance of GASB Statement Nos. 54 and 62 (both adopted in FY 2011 for the City). The Statement supersedes the requirement in GASB No. 10 that an entity's risk-financing activities be accounted for in either the general fund or internal service fund and amends the following topics in GASB No. 62: operating lease payments that vary from straight-line; purchase of loans or groups of loans; and servicing fees on sales of mortgage loans. This Statement is effective for the City in the fiscal year ending September 30, 2014, with early adoption allowed.
- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* - requires employers to report the difference between the actuarial total pension liability and the fair value of the legally restricted plan assets as the net pension liability on the statement of net position. Previously, a liability was only recorded if the actual contributions made to the plan were less than the actuarial calculated contributions for the year. Additionally, the Statement requires the use of the entry age actuarial cost method to calculate the pension liability. This Statement will be effective for the City in the fiscal year ending September 30, 2015, with early adoption allowed.

Questions and comments





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