



# **City of Kerrville**

## **Audit Report**

### **Year Ended September 30, 2022**



# Audit Process

- August - November
  - Auditor review of internal processes and policies
  - Internal controls
  - Interviews with key personnel
  - Data Testing
    - Accounting
    - Purchasing Compliance
    - Revenues / Expenditures
    - Review of Journal Entries
    - SEFA compilation & testing
- November – December
  - Review of:
    - Year-end financials (for recording accuracy)
    - Asset additions & deletions
    - Implementation of GASB 87 (new in FY2022)
- January – February
  - Assist with ACFR creation
  - Review ACFR for accuracy & consistency

# Important Notes

- Annual Comprehensive Financial Report (ACFR) does not reflect information identical to budget
- Government Finance Officers Association (GFOA) and Government Accounting Standards Board (GASB) set guidelines for ACFR presentation
- Financials in ACFR include fund groupings larger than budget
  - Example:
    - Government-wide activity includes all City funds
    - Enterprise Funds (Business-type) activity includes all enterprise funds within the City (Golf & Water) grouped together
    - General Fund includes all General Government Funds grouped together
- ACFR includes items not seen in the budget
  - Assets & Liabilities
    - Revenues
      - Receivables as of year-end
      - Long term payables such as GASB 87 leases
  - Liabilities
    - Expenses
      - Depreciation
      - Pension & OPEB liabilities
      - Outstanding expense to include long-term leases, debt, etc.



# Council Action

Motion to accept the audited Annual Comprehensive Financial Report for fiscal year ended September 30, 2022

# FORVIS<sup>TM</sup>



## City of Kerrville, Texas

FY2022 Audit Presentation

# Introductions



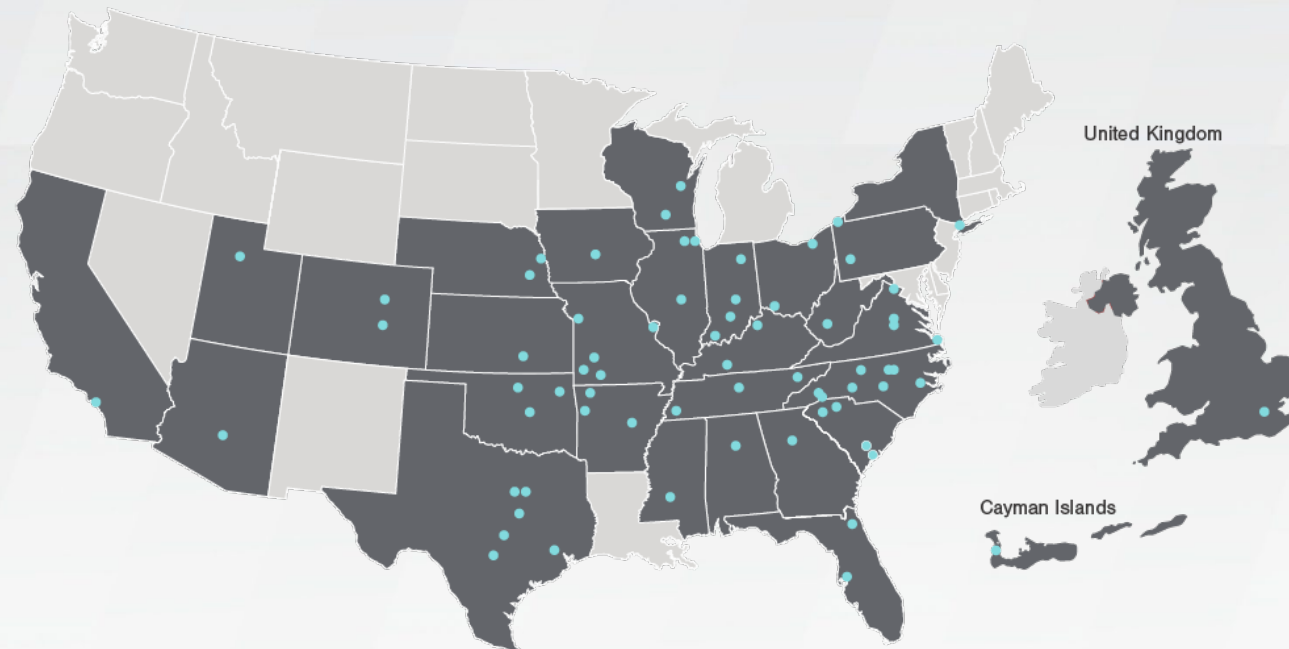
**Kevin Kemp, CPA**

Partner

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# FORVIS

As a top 10 firm with true national coverage, we're now exponentially stronger—for the benefit of our clients, our people, and the market of the future.



# FORV/S



**8th**

Largest  
U.S. Firm\*

**530+**

Partners &  
Principals

**28**

States + U.K. &  
Cayman Islands\*\*

**10+**

Industries

**5,700+**

Team Members

**72**

Markets

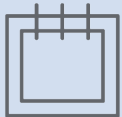
# Agenda



Audit Scope and Results



Financial Trends



Future Pronouncements and Other Matters



Questions



# Audit Scope and Results

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# Audit Scope and 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 the Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance – Independent Auditor’s Report

# Audit Scope and Results (cont.)

- Qualitative Aspects of Significant Accounting Policies and Practices
  - Significant Accounting Policies
    - The City's significant accounting policies are described in *Note 1* of the audited financial statements.
  - Implementation of GASB 87, *Leases*
  - Alternative Accounting Treatments
    - No matters are reportable

# Audit Scope and Results (cont.)

- Qualitative Aspects of Significant Accounting Policies and Practices (continued)
  - Management Judgments and Accounting Estimates
    - Allowance for uncollectible accounts receivable
    - Defined benefit pension plan assumptions
    - Other postemployment benefit plan assumptions
    - Key estimates related to leases – lease discount rate, lease term, and lease payments
  - Financial Statement Disclosures
    - Net pension asset
    - Total OPEB liability
    - Commitments and contingent liabilities
    - Leases

# Audit Scope and Results (cont.)

- Audit Adjustments
  - Proposed audit adjustments recorded:
    - Adjust net pension asset and related deferred inflows/outflows of resources (outsourced to FORVIS)
    - Record lease related entries (outsourced to FORVIS)
    - Adjust total other postemployment benefit liability and related inflows/outflows of resources (outsourced to FORVIS)
  - Proposed audit adjustments not recorded:
    - None

# Audit Scope and Results (cont.)

- Auditor's Judgments About the Quality of the City's Accounting Principles
  - No matters are reportable.
- Significant Issues Discussed with Management During the Audit Process
  - Implementation of GASB Statement No. 87, *Leases*

# Financial Trends

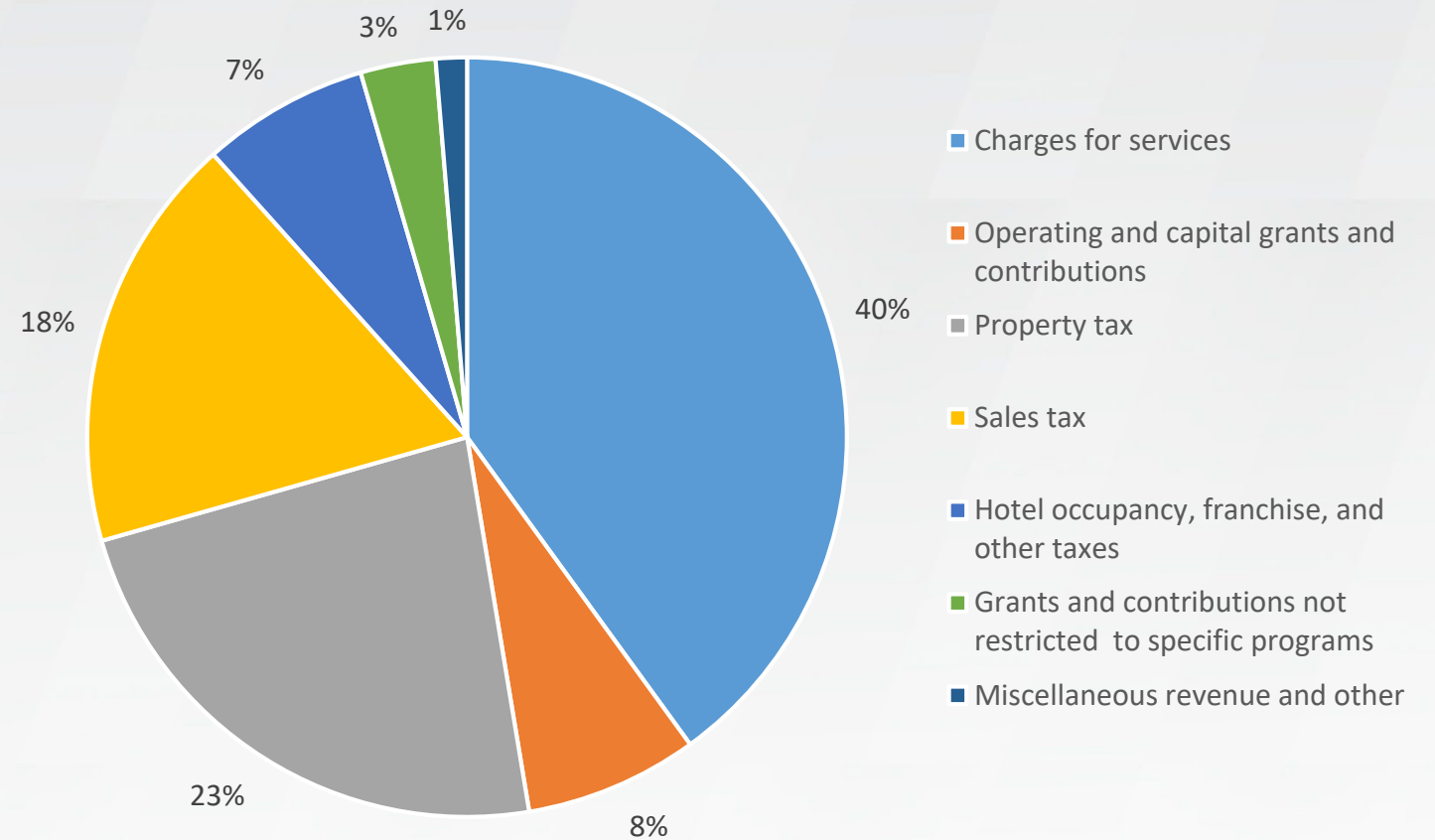
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# Kerrville Government- wide Revenues by Source

\$55.0 million

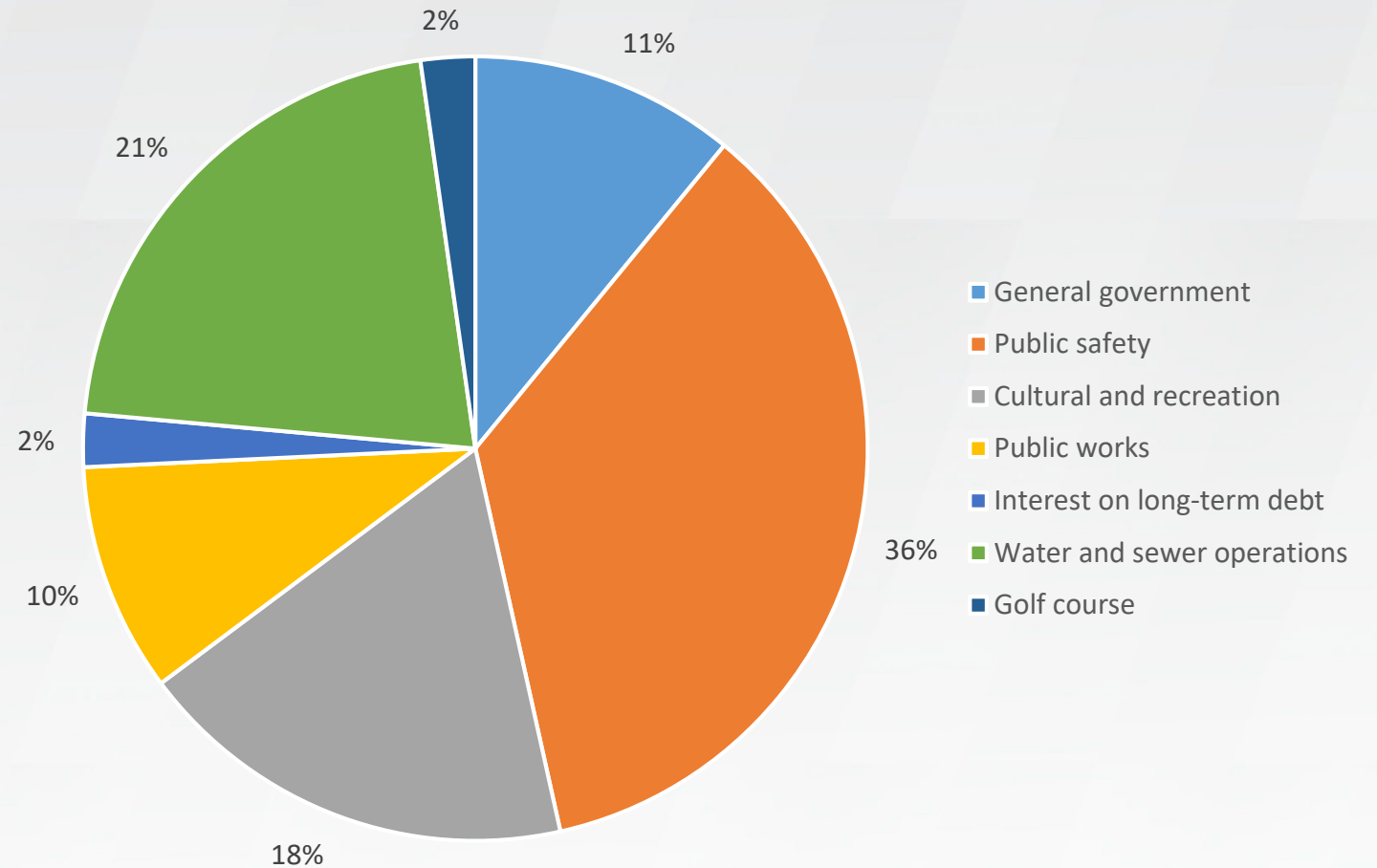




# Kerrville Government-wide Expenses by Function/Program

\$48.7 million

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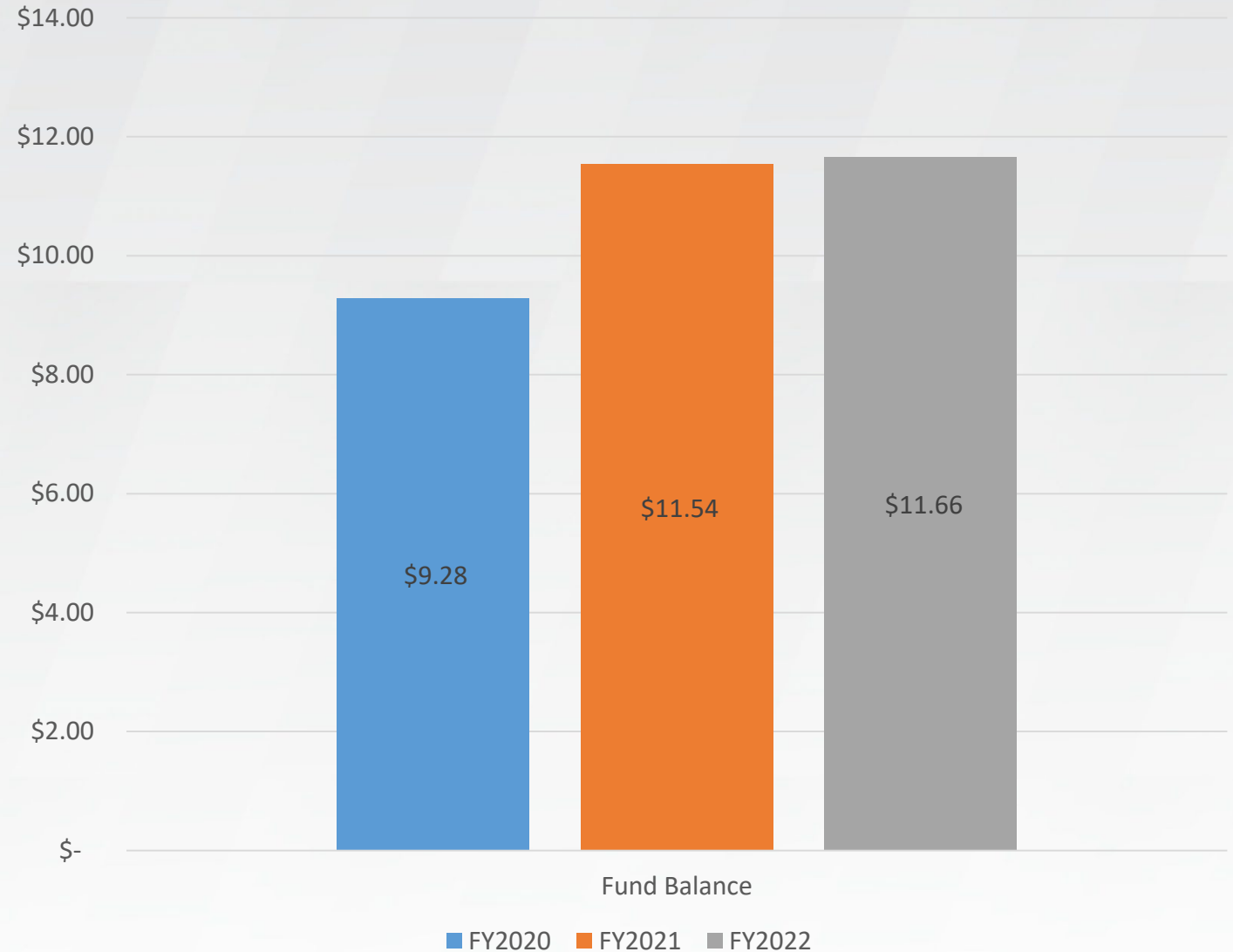
# Pension - Texas Municipal Retirement System – Primary Government

	FY2020	FY2021	FY2022
Net Pension Liability (Asset)	\$5.5M	\$5.0M	(\$0.8M)
Plan fiduciary net position as a % of the total pension liability	93.8%	94.6%	100.8%

# General Fund – Fund Balance

- Ending unassigned fund balance for the General Fund was \$11.66M
- Total fund balance increased \$516,869 or 2.8% from FY2021
- Unassigned fund balance is equal to 36.1% of FY2022 General Fund expenditures

Unassigned Fund Balance (in millions)



# Future Pronouncements and Other Matters

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# Accounting Updates - GASB Statement 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*

## Summary

- Provides guidance on reporting public-private and public-public partnership arrangements (PPPs) and availability payment arrangements (APAs).
- PPPs: arrangement where government contracts with an operator to provide public services by conveying right to an asset
- APAs: arrangement where a government compensates an operator for services such as designing, constructing, financing, maintaining or operating an asset
- Statement's language and concepts closely mirror the lease guidance provided in GASB 87, *Leases*.
- GASB 94 is effective for the City's 2023 fiscal year.

## Potential Impact

- Report a PPP asset and a corresponding PPP liability
- Disclose essential information about the arrangement

# Accounting Updates - GASB Statement 96, *Subscription-Based Information Technology Arrangements*

## Summary

- Addresses the accounting for the costs related to cloud computing agreements.
- Statement's language and concepts closely mirror the lease guidance provided in GASB 87, *Leases*.
- GASB 96 is effective for the City's 2023 fiscal year.

## Potential Impact

- Report a subscription asset and a corresponding subscription liability
- Disclose essential information about the arrangement

# Accounting Updates - GASB Statement 100, *Accounting Changes and Error Corrections*

## Summary

- Updates accounting and financial reporting requirements for accounting changes and error corrections to address current diversity in practice
- Defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes.
- GASB 100 is effective for the City's 2024 fiscal year. Earlier application is encouraged.

## Potential Impact

- For each type of accounting change and error correction, GASB 100 addresses accounting and reporting requirements, display, including display in the financial statements, note disclosures, and impact on required supplementary information (RSI) and supplementary information (SI).

# Accounting Updates - GASB Statement 101, *Compensated Absences*

## Summary

- Updates the recognition and measurement guidance for compensated absences under a unified model.
- Defines compensated absences and requires that liabilities be recognized in financial statements prepared using the economic resources measurement focus for leave that has not been used and leave that has been used but not yet paid or settled.
- Liability for compensated absences should be accounted for and reported on a basis consistent with governmental fund accounting principles for financial statements prepared using the current financial resources measurement focus.
- GASB 101 is effective for the City's 2025 fiscal year. Earlier application is encouraged.

## Potential Impact

- GASB 101 amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change).
- No longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.
- The changes adopted at transition to conform to the provisions of GASB 101, should be reported as a change in accounting principle in accordance with GASB 100, including the related display and disclosure requirements



# Environmental, Social and Governance (ESG)

- Environmental, social and governance (ESG) performance has become a hot topic for many organizations. ESG performance, reporting, and investment practices are coming under closer scrutiny from regulators, investors, and other watchdog groups. New regulations are expected from the SEC for organizations subject to their regulation. Furthermore, numerous national associations have recommended ESG best practices. We encourage you to increase corporate governance awareness through education of ESG topics, including regulatory developments, standard ESG metrics used for reporting performance, and ESG-related risks that could impact the City's strategy and objectives.

# Questions?

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**Assurance / Tax / Advisory**

# Thank you!

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