City of Littleton, Colorado

Audit Wrap Up
September 18, 2018

Anton Collins Mitchell LLP
Accountants & Consultants

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Honorable Mayor and Members of City Council
City of Littleton, Colorado

Professional standards require us to communicate with you regarding matters related to the audit, that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. We presented an overview of our plan for the audit of the financial statements of the City of Littleton, Colorado (the "City") as of and for the year ended December 31, 2017, including a summary of our overall objectives for the audit, and the nature, scope, and timing of the planned audit work.

This communication is intended to elaborate on the significant findings from our audit, including our views on the qualitative aspects of the City's accounting practices and policies, management's judgments and estimates, financial statement disclosures, and other required matters.

We are pleased to be of service to the City and look forward to meeting with you on September 18, 2018 to discuss our audit findings, as well as other matters that may be of interest to you, and to answer any questions you might have.

Respectfully,

Anton Collins Mitchell LLP

Denver | Boulder | Northern Colorado | Laramie

303 East 17th Avenue, Suite 600
Denver, Colorado 80203
303.830.1120 · Fax 303.830.8130 · www.acmllp.com

Discussion Outline

Status of Our Audit

We have completed our audit of the financial statements and federal awards as of and for the year ended December 31, 2017. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. This audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

- The objective of our audit was to obtain reasonable - not absolute - assurance about whether the financial statements are free from material misstatements.
- The scope of the work performed was substantially the same as that described to you in our earlier Audit Planning communications.
- We have issued an unmodified opinion on the financial statements and released our report on June 27, 2018.
- We issued a report on our consideration of the City's internal control over financial reporting and compliance with certain provisions of laws, regulations, contracts, and grant agreements in accordance with Government Auditing Standards and a report on the compliance with requirements that could have a direct and material effect on each major program and on internal control in accordance **the audit requirements of Title 2 U.S.** *Code of Federal Regulations* **Part 200,** *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* **(Uniform Guidance).** We did not identify any deficiencies that we consider to be material weaknesses that could have a direct and material effect on major federal programs for the year ended December 31, 2017.
- Our responsibility for other information in documents containing the City's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform procedures to corroborate such other information. However, in accordance with professional standards, we have read the information included by the City and considered whether such information, or the manner of its presentation, was materially inconsistent with its presentation in the financial statements. Our responsibility also includes calling to management's attention any information that we believe is a material misstatement of fact. We have not identified any material inconsistencies or concluded there are any material misstatements of facts in the other information that management has chosen not to correct.
- All records and information requested by Anton Collins Mitchell LLP ("ACM") were freely available for our inspection.
- Management's cooperation was excellent. We received full access to all information that we requested while performing our audit, and we acknowledge the full cooperation extended to us by all levels of City personnel throughout the course of our work.

Results of Our Audit

ACCOUNTING PRACTICES, POLICIES, AND ESTIMATES

The following summarizes the more significant required communications related to our audit concerning the City's accounting practices, policies, and estimates:

The City's significant accounting practices and policies are those included in Note 1 to the financial statements. These accounting practices and policies are appropriate, comply with generally accepted accounting principles and industry practice, were consistently applied, and are adequately described within Note 1 to the financial statements.

- There were no changes in significant accounting policies and practices during 2017.

Significant estimates are those that require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain. The City's significant accounting estimates, including a description of management's processes and significant assumptions used in development of the estimates, are disclosed in Note 1 of the financial statements.

- Management did not make any significant changes to the processes or significant assumptions used to develop the significant accounting estimates in 2017.

Primary Areas of Focus and Considerations and Findings

Revenue Recognition: The City's major source of revenues consists of property taxes, sales and use taxes, intergovernmental grants and contributions, and charges for services. The City records revenues when earned. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

Accounts Receivable and Allowances: Accounts receivable represents amounts due from citizens and businesses for property and sales taxes, customers for utilities and emergency medical transportation services, and other governmental entities. The City determined approximately $2 million of receivables for the emergency medical transportation services was uncollectible and recorded an allowance for this amount.

Capital Assets and Depreciation: Capital assets of the City continue to be a significant area of the financial statements. Accordingly, as part of the audit, we paid particular attention to the costs of newly acquired assets, repairs and maintenance expenditures on existing capital assets, and the depreciation expense of these assets.

Long-term Obligations: The City currently has three outstanding capital lease obligations totaling approximately $8.01 million. In addition, the City has an assignment certificate and revenue loan payable, including the related premium, in its business-type activities, totaling approximately $25.25 million. Accordingly, we have applied certain procedures over balances, future maturities, and accrued interest associated with the applicable leases, along with compliance with the lease agreements. It appears that the City is properly accounting for these obligations.

Results of Our Audit

Pension Reporting: The City has two defined benefit plans administered by the Fire and Police Pension Association of Colorado ("FPPA"). The FPPA is a cost-sharing, multiple-employer defined benefit plan. The City implemented the pension standards during the fiscal year ended December 31, 2015. As such, the City has reported a net pension asset for the plan in their financial statements. In addition, changes in net pension assets were recognized as pension expense or reported as deferred outflows/inflows of resources depending on the nature of change.

Evaluation of Going Concern: No going concern issues were noted during our audit.

Evaluation of Estimates: Estimates were determined to be reasonable and free of bias.

Single Audit Procedures: Because the City expended more than $750,000 of federal grant funds, the City was subject to a single audit pursuant to the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Accordingly, ACM performed procedures on internal controls, and certain compliance requirements associated with the City's major federal awards.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Please refer to the schedule of corrected misstatements or Adjusting Journal Entries ("AJEs").

There were no uncorrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we presented to management.

QUALITY OF THE CITY'S FINANCIAL REPORTING

A discussion was held regarding the quality of the City's financial reporting, which included the following:

- Qualitative aspects of significant accounting policies and practices
- Our assessment of critical accounting policies and practices
- Our conclusions regarding significant accounting estimates
- Significant unusual transactions
- Financial statement presentation
- New accounting pronouncements
- Alternative accounting treatments

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We are required to communicate, in writing, to those charged with governance all material weaknesses and significant deficiencies that have been identified in the City's internal controls over financial reporting. The definitions of control deficiency, significant deficiency and material weakness follow:

Category	Definition
Deficiency in Internal Control	A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.
Significant Deficiency	A deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
Material Weakness	A deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

In conjunction with our audit of the financial statements, we did not identify any deficiencies in the City's internal controls over financial reporting that were considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

We have communicated to management the following deficiencies in internal control:

Manual Calculation of Payroll Accrual – Currently, the payroll accrual is manually calculated, which resulted in an inaccurate calculation during the 2017 audit. We recommend the City implement automated procedures for the calculation of the payroll accrual using reports from the payroll system. Implementing an automated process will allow for greater efficiency in the accounting process and also provide for a stronger system of controls.

P-Card Purchases – During our testing of P-Card transaction, it was noted that a number of expense reports did not have the appropriate approvals, and certain taxes were charged to City P-Cards that should not have been charged. We recommend the City adhere to the established review and approval process outlined in the P-Card Policy and work with significant vendors to ensure the City is shown as tax-exempt within vendors systems. Additionally, we recommend the City provide additional training to City employees on the review and approval process tax-exempt status.

Other Required Communications

Following is a summary of those required items, along with specific discussion points as they pertain to the City:

Requirement	Discussion Points
Significant changes to planned audit strategy or significant risks initially identified	There were no significant changes to the planned audit strategy or significant risks initially identified and previously communicated to those charged with governance as part of our Audit Planning communications.
Obtain information from those charged with governance relevant to the audit	There were no matters noted relevant to the audit, including, but not limited to: violations or possible violations of laws or regulations; risk of material misstatements, including fraud risks; or tips or complaints regarding the City's financial reporting that we were made aware of as a result of our inquiry of those charged with governance.
If applicable, nature and extent of specialized skills or knowledge needed related to significant risks	There were no specialized skills or knowledge needed, outside of the core engagement team, to perform the planned audit procedures or evaluate audit results related to significant risks.
Consultations with other accountants	We are not aware of any consultations about significant accounting or auditing matters between management and other accountants where we have identified a concern regarding such matters.
Our evaluation of the City's relationships and transactions with related parties and their impact on the financial statements	We have evaluated the City's process to identify, authorize and approve, account for, and disclose its relationships and transactions with related parties and noted no significant issues.
Disagreements with management	There were no disagreements with management about matters, whether or not satisfactorily resolved, that individually or in aggregate could be significant to the City's financial statements or to our auditor's report.
Significant difficulties encountered during the audit	There were no significant difficulties encountered during the audit.
If applicable, other matters significant to the oversight of the City's financial reporting process, including complaints or concerns regarding accounting or auditing matters	There are no other matters that we consider significant to the oversight of the City's financial reporting process that have not been previously communicated.
Representations requested from management	Please refer to the management representation letter.

Independence Communication

Our engagement letter to you dated December 7, 2017 describes our responsibilities in accordance with professional standards and certain regulatory authorities and *Government Auditing Standards* with regard to independence and the performance of our services. This letter also stipulates the responsibilities of the City with respect to independence as agreed to by the City. Please refer to that letter for further information.

GASB Standards Effective in 2017

GASB STATEMENT NO. 74, *ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFIT PLANS (OPEB) OTHER THAN PENSION PLANS*

- Provides reporting requirements for OPEB plans and applies to both defined benefit and defined contribution plans administered through trusts that meet certain criteria:
    1. Contributions are irrevocable,
    2. Plan assets are dedicated to providing benefits according to the plan terms,
    3. Plan assets are legally protected from creditors.
- Guidance is also provided for plans not held in trust.
- The requirements follow GASB 67, requiring the statement of net positon and statement of changes in fiduciary net positon as well as the same RSI schedules.
- The pronouncement will be effective starting with years ending June 30, 2017.

GASB STATEMENT NO. 80, *BLENDING REQUIREMENTS FOR CERTAIN COMPONENT UNITS, AN AMENDMENT OF GASB 14*

- Specifies that a component unit incorporated as a nonprofit when the primary government is the sole member would be reported by the primary government as a blended component unit.
- The pronouncement will be effective starting with years ending June 30, 2017.

GASB STATEMENT NO. 82, *PENSION ISSUES*

- Addresses three issues that arose during implementation of GASB 67 and 68.
    1. The first relates to the definition of covered payroll included in Required Supplementary Information. Covered payroll is compensation paid to employees on which contributions are based.
    2. The pronouncement also clarifies that a *deviation* from actuarial standards is not considered to be in conformity with the requirements of GASB 67 or 68 for selection of assumptions in determining the total pension liability.
    3. The last issue relates to employer-paid member contributions, commonly referred to as employer "pick-up". When an employer pays contributions on behalf of members they should be classified as member contributions for GASB 67 plan statements and as employee contributions for GASB 68 reporting and included in salary expense.
- The pronouncement will be effective starting with years ending June 30, 2017.

GASB STATEMENT NO. 81, *IRREVOCABLE SPLIT-INTEREST AGREEMENTS*

- Will require governments to recognize assets, liabilities and deferred inflows at fair value when the government is a beneficiary of an irrevocable split-interest agreement.
- Examples include charitable lead trusts, charitable remainder trusts and life-interest in real estate.
- The pronouncement will be effective starting with years ending December 31, 2017.

GASB Standards Effective in 2018 -2020

GASB STATEMENT NO. 75, *ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS*

- Establishes measurement criteria for the Other Postemployment Benefits (OPEB) liability of state and local governments and mirrors the requirements of GASB 68.
- For plans administered through trust governments must recognize the net OPEB liability.
- For plans not administered through trust the government must recognize the total OPEB liability.
- The pronouncement will be effective starting with years ending June 30, 2018.

GASB STATEMENT NO. 83, *CERTAIN ASSET RETIREMENT OBLIGATIONS*

- Establishes measurement criteria for recording a liability for the retirement or removal of certain assets such as:
    - ✓ Nuclear power plants
    - ✓ Sewage treatment facilities
    - ✓ Coal-fired power plant
    - ✓ Wind turbines
    - ✓ X-ray machines
- Governments with legal obligations to perform future asset retirement activities related to its tangible capital assets would be required to recognize a liability.
- A liability and corresponding deferred outflow is recorded when the liability is both incurred and reasonable estimable.
- The liability is based on best estimate of current value of outlays expected to be incurred.
- Must be both an external obligating event, such as a court judgment or federal, state or local law; and an internal obligating event, such as contamination or retirement.
- The pronouncement will be effective starting with years ending June 30, 2019.

GASB STATEMENT NO. 84, *FIDUCIARY ACTIVITIES*

- Establishes criteria for reporting fiduciary activities that focuses on whether the government controls the assets and the fiduciary relationship with the beneficiaries.
- The statement describes four fiduciary funds:
    1. Pension and OPEB funds
    2. Investment trust funds
    3. Private-purpose trust funds
    4. Custodial funds
- Custodial funds replace agency funds for activities that are not held in trust.
- For activities for which a trust agreement exists, an investment trust fund or private purpose trust fund will be used.
- Pension funds not held in trust would be classified as custodial funds.
- The pronouncement will be effective starting with years ending December 31, 2019.

GASB Standards Effective in 2018 -2020

GASB STATEMENT NO. 85, *OMNIBUS 2017*

- Addresses several practice issues that have been identified during implementation of certain GASB Statements:

  1. Blending a component unit when the primary government is a business-type activity that reports in a single column.
  2. Reporting amounts previously reported as goodwill and negative goodwill.
  3. Classifying real estate held by insurance entities.
  4. Measuring certain money market instruments at amortized cost.
  5. Timing of the measurement of pension or OPEB liabilities and expenditures in governmental fund financial statements.
  6. Recognizing on-behalf payments for pensions or OPEB in employer financial statements.
  7. Presenting payroll-related measures in RSI for OPEB plans and employers that provide OPEB.
  8. Classifying employer-paid member contributions for OPEB.
  9. Simplifying certain aspects of the alternative measurement method for OPEB.
  10. Accounting and reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

- The pronouncement will be effective starting with years ending June 30, 2018.

GASB STATEMENT NO. 86, *CERTAIN DEBT EXTINGUISHMENT ISSUES*

- Resolves issue of how to record in-substance defeasance of debt when solely existing resources are used.

- Current standards only address reporting requirements when debt is extinguished using bond proceeds.

- When cash or other existing resources are placed in an irrevocable trust to extinguish debt it is considered to be in-substance defeasance, assuming all criteria are met.

- The difference between the reacquisition price and the net carrying amount of the debt will be recognized as a separately identified gain or loss in the period of defeasance. This differs from current practice when debt is extinguished using bond proceeds, whereby the difference is deferred.

- Payments to the escrow agent from existing resources should be reported as debt service expenditures in governmental fund types.

- The pronouncement will be effective starting with years ending June 30, 2018.

GASB Standards Effective in 2018 -2020

GASB STATEMENT NO. 87, *LEASES*

- This standard will require recognition of certain lease assets and liabilities for leases that are currently classified as operating leases.
- Eliminates the distinction between operating and capital leases - all leases will be recorded on the statement of net position/balance sheet.
- New definition of a lease - a contract that conveys the right to use another entity's nonfinancial asset for a period of time in an exchange or exchange-like transaction.
- Excludes leases that transfer ownership under a bargain purchase option or service concession arrangements that are covered by GASB Statement No. 60.
- Lessees would recognize a lease liability and an intangible right-to-use lease asset which would be amortized in a systematic and reasonable manner over the shorter of the lease term or the useful life of the underlying asset. Short-term leases are excluded.
- Lessor would recognize lease receivable and deferred inflow of resources which would be recognized as revenue in a systematic and rational manner over the term of the lease.
- The pronouncement will be effective starting with years ending December 31, 2020.