



**City of Austin, Texas —**  
Report to the Audit and Finance Committee on Financial  
Audit, Audits of Federal and State Programs, and Other  
Reports for the Year Ended September 30, 2018

Tracey Guidry Cooley, Managing Director  
Blake Rodgers, Partner  
Jane Chin, Senior Manager  
April 17, 2019

This report is intended solely for the information and use of the Audit and Finance Committee of the City Council, management, and others in the City. It is not intended to be and should not be used by anyone other than these specified parties.

# Contents

▪ Reports & Opinions	2
▪ Report on the Basic Financial Statements	
▪ Audit scope	3-5
▪ Unaudited information	6
▪ Required Communications	7-8
▪ Significant accounting policies	9
▪ Accounting estimates	10
▪ Audit results	11
▪ Additional matters	12-13
▪ Single Audit Report - Federal and State Programs	14-15
▪ Other Reports Issued	
▪ Passenger Facility Charges (PFCs) report	16
▪ Texas Commission on Environmental Quality ("TCEQ") Agreed-Upon Procedures report	16
▪ Appendices	17
▪ Appendix A – Significant judgments and estimates	18-21
▪ Appendix B – Uncorrected misstatements	22-25
▪ Appendix C – Definitions of deficiencies	26
▪ Appendix D – Management representation letter	27

# Reports and Opinions

---

# Report on the Basic Financial Statements

## Audit scope

- We have performed an audit of the Comprehensive Annual Financial Report ("CAFR") of the City of Austin, Texas (the "City"), as of and for the year ended September 30, 2018, in accordance with auditing standards generally accepted in the United States of America ("GAAS") and *Government Auditing Standards* ("GAS").
- As a part of this audit process, we have issued an unmodified (clean) opinion, dated February 28, 2019, on the FY 2018 CAFR.
- We included an emphasis-of-matter paragraph relating to the implementation of Government Accounting Standards Board ("GASB") Statement No. 75. As discussed in Note 18 to the basic financial statements, the City adjusted its beginning net position as of October 1, 2017, to reflect the impact of the implementation of GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this change.
- We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the City is responsible.
- We are not aware of any relationships, including non-audit services, between Deloitte & Touche LLP (D&T) and its subsidiaries, the member firms of Deloitte Touche Tohmatsu Limited, and their respective affiliates and the Institution that, in our professional judgment, may reasonably be thought to bear on our independence.

# Report on the Basic Financial Statements

## Audit scope (cont.)

- Our responsibilities under GAAS are outlined in our contract dated July 17, 2018 and our engagement letter dated July 12, 2018. We were not restricted in any manner.
- No significant changes resulted from the execution of the external audit plan
- Our auditing procedures addressed the following area of focus identified in our external audit plan dated September 26, 2018:
  - Management override of controls (*American Institute of Certified Public Accountants ("AICPA") AU-C 240*)

# Report on the Basic Financial Statements

## Audit scope (cont.)

- We did not audit the financial statements of certain discretely presented component units (Austin Bergstrom Landhost Enterprises, Inc. and the Austin Convention Enterprises, Inc.)
  - Represents 99.9% of the assets, 97.8% of the net position, and 98.9% of the revenues of the discretely presented component units
  - Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of the other auditors

# Report on the Basic Financial Statements

## Unaudited Information

- When audited financial statements are included in documents containing other unaudited information such as certain information in the City's CAFR, we read the unaudited information and consider whether it, or the manner of its presentation, is materially inconsistent with the information in the financial statements audited by us.
- We have read the other information in the City's CAFR and inquired as to the methods of measurement and presentation of such information. We did not note any material inconsistencies or obtain knowledge of a material misstatement of fact in the other information.

# Report on the Basic Financial Statements

## Required Communications

Generally accepted auditing standards require that certain additional matters be communicated to an entity's audit committee in connection with the performance of an audit:

- **Auditor's responsibility under GAAS and GAS** – The objective of a financial statement audit is to express an opinion on the fairness of the presentation of the City's financial statements for the year ended September 30, 2018, in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects. Our responsibilities under GAAS and GAS include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit and Finance Committee are presented fairly, in all material respects, in conformity with generally accepted accounting principles.
- **The audit of the financial statements does not relieve management or the Audit and Finance Committee of their responsibilities.**

*(continued on next slide)*



# Report on the Basic Financial Statements

## Required Communications (cont.)

Generally accepted auditing standards require that certain additional matters be communicated to an entity's audit committee in connection with the performance of an audit (continued):

- **An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.** The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting.
- **Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.** Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

# Report on the Basic Financial Statements

## Significant Accounting Policies

- The City's significant accounting policies are set forth in Note 1 to the City's FY 2018 CAFR.
- We are not aware of any significant changes in previously adopted accounting policies or their application during the year ended September 30, 2018, except for the adoption of GASB Statement 75.
- We have evaluated the significant qualitative aspects of the City's accounting practices, including accounting policies, accounting estimates and financial statement disclosures and concluded that these practices are appropriate, adequately disclosed, and consistently applied by management.

# Report on the Basic Financial Statements

## Accounting Estimates

- Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments.
  - Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events.
- Our assessment of the significant qualitative aspects of the City's significant accounting estimates has been attached to this presentation as **Appendix A**
  - Total other postemployment benefit plan and related balances
  - Net pension liabilities and related balances
  - Nuclear decommissioning liability
  - Deferred amounts related to accounting for regulated operations

# Report on the Basic Financial Statements

## Audit Results

### Audit adjustments

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. We have included in this presentation in **Appendix B** a listing of uncorrected misstatements that we presented to management during the current year audit engagement that were determined by management to be immaterial, both individually and in the aggregate, to the consolidation financial statements taken as a whole.

### Disclosures passed

- There were no passed disclosure items noted in the current year.

# Report on the Basic Financial Statements

## Additional Matters

### Upcoming GASB Statements

- GASB Statement No. 83, Certain Asset Retirement Obligations, effective 2019
- GASB Statement No. 84, Fiduciary Activities, effective 2020
- GASB Statement No. 87, Leases, effective 2021

# Report on the Basic Financial Statements

## Additional Matters (cont.)

### Management Representation Letter

- We have made specific inquiries of the City's management about the representations embodied in the financial statements and in management's assessment about the effectiveness of the Company's internal control over financial reporting.
- Additionally, we have requested that management provide to us the written representations the City is required to provide to its independent auditors under GAAS.
- We have attached to this presentation, as part of **Appendix D**, a copy of the representation letter we obtained from management.

# Single Audit Report – Federal and State Programs

## The Single Audit Report includes:

- A report on compliance with requirements that could have a direct and material effect on each major federal program and on internal control over compliance in accordance with Uniform Grant Guidance (“UGG”)
- A report on compliance with requirements that could have a direct and material effect on each major state program and on internal control over compliance in accordance with and State of Texas Uniform Grants Management Standards (“UGMS”)

# Single Audit Report – Federal and State Programs (cont.)

## Federal Programs

- **Type of Opinion:** Report on compliance with requirements that could have a direct and material effect on each major federal program and on internal control over compliance in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*
- We issued an unmodified opinion (clean opinion)
- Issued on April 4, 2019

## State Programs

- **Type of Opinion:** Report on compliance with requirements that could have a direct and material effect on each major state program and on internal control over compliance in accordance with the State of Texas Uniform Grant Management Standards (UGMS)
- We issued an unmodified opinion (clean opinion)
- Issued on April 4, 2019



## Other Reports Issued

### Passenger Facility Charges (PFCs) Report

- **Type of Opinion**: Report on compliance with requirements applicable to the Passenger Facility Charge program and consideration of the internal control over compliance in accordance with requirements issued by the Federal Aviation Administration
- We issued an unmodified opinion (clean opinion)
- No reported findings
- Issued on April 3, 2019

### Texas Commission On Environmental Quality (“TCEQ”) Agreed-Upon Procedures Report

- No reported exceptions
- Issued on March 15, 2019

# Appendices

---

# Appendix A — Significant Judgments and Estimates

## Annual required contribution to City's other postemployment benefit plan

Management's methodology	Audit procedures
<ul style="list-style-type: none"><li>• Management engages an actuary to perform a valuation with the objective of estimating the total OPEB liability (TOL) for the City's other postemployment benefit plan in accordance with GASB 75 (implemented in fiscal year 2018).</li><li>• With data provided by the City on the plan participants and with management's oversight, the actuary makes certain assumptions about the plan participants, discount rate, mortality, rate of salary increases, inflation rate, and healthcare costs trends to develop the estimated TOL.</li><li>• This valuation is performed biennially and projected forward to the off years as permitted by GAAP. A new valuation dated July 2, 2018 was performed for fiscal year 2018.</li></ul>	<ul style="list-style-type: none"><li>• Performed data analysis procedures and testing of the census data used by the actuary to develop the assumptions and estimates</li><li>• Involved Deloitte actuarial specialists in the evaluation of the City's actuarial valuation, including the calculations and the reasonableness of assumptions</li><li>• Tested a sample of claims expenses to determine if they were for eligible plan participants</li><li>• Reviewed the related disclosures of the assumptions for accuracy and consistency with the actuarial study and GAAP requirements</li><li>• Management's methodology and resulting amounts were deemed reasonable.</li></ul>

## Appendix A — Significant Judgments and Estimates (cont.)

### Net pension liability and related balances for City's participation in three pension plans

Management's methodology	Audit procedures
<ul style="list-style-type: none"> <li>• Management obtained information from the three pension plans including actuarial valuations, audited plan financial statements, and census data.</li> <li>• After evaluating the information received from the three plans, management used the information to calculate the balances that needed to be recorded in the current year based on a measurement date of December 31, 2017.</li> <li>• The net pension liability, pension expense, and the related balances were allocated to the funds using annual contributions made by each fund during the measurement period.</li> </ul>	<ul style="list-style-type: none"> <li>• Agreed the total pension liability and fiduciary net position as well as certain disclosures from the audited plan financial statements to the City's disclosures</li> <li>• Involved Deloitte actuarial specialists in the evaluation of the plans' actuarial valuations, including the calculations and the reasonableness of assumptions</li> <li>• Tested a sample of employer contributions to determine if they were properly calculated and for eligible plan participants. Also, tested management's allocation of the pension balances to the funds, which was based on contributions</li> <li>• Either analyzed and tested the census data used by the plans' actuaries or obtained an audited schedule of pension amounts from the respective plan to gain sufficient audit evidence of the accuracy and completeness of the census data used in the valuation</li> <li>• Management's methodology and resulting amounts were deemed reasonable.</li> </ul>

## Appendix A — Significant Judgments and Estimates (cont.)

### Nuclear decommissioning liability

Management's methodology	Audit procedures
<ul style="list-style-type: none"><li>• Management developed the estimated decommissioning liability by applying the latest escalation factors (specifically energy, waste burial, and public utility employee inflation rates) to the costs estimated in 2018 and updated annually.</li></ul>	<ul style="list-style-type: none"><li>• Recalculated management's application of the latest escalation factors to the cost estimates.</li><li>• Agreed the escalation factors used to the third-party sources (if applicable).</li><li>• Understood the qualifications of and evaluated whether there are any conflicts with the company performing decommissioning cost estimates and the time period that the nuclear power plant is expected to operate.</li><li>• Evaluated, with the use of Deloitte specialists, the assumptions related to the 2018 study.</li><li>• Management's methodology and resulting amounts were deemed reasonable.</li></ul>

# Appendix A — Significant Judgments and Estimates (cont.)

## Deferred amounts related to accounting for regulated operations

Management's methodology	Audit procedures
<ul style="list-style-type: none"><li>• Management considers the rate setting process and estimates the amount of costs that will be recovered in the future and costs that have been collected in advance through calculations that compare debt outstanding to the net book value of depreciable capital assets purchased with debt.</li><li>• In addition, management evaluates certain costs that have not been included in the rate setting process. This includes other key estimates such as nuclear decommissioning, pensions and other post employment benefits costs, and unrealized gains and losses on investments and derivatives.</li><li>• Management evaluates certain estimates by projecting them forward to determine if the amounts will amortize to zero over time if no other transactions that affected the deferred amounts occurred.</li></ul>	<ul style="list-style-type: none"><li>• Understood any changes to management's rate setting process and tested that the City continued to meet the criteria defined by GAAP</li><li>• Gained an understanding of the costs that will be recovered in the future and costs recovered in advance and tested the completeness of management's identification of such costs</li><li>• Tested the amortization period of deferred regulatory costs model</li><li>• Tested estimates that were significant to the calculation, specifically nuclear decommissioning, pensions and other post employment benefits costs, and investments and derivatives</li><li>• Considered the consistency of the application of GAAP, as applicable to the City</li><li>• Management's methodology and resulting amounts were deemed reasonable.</li></ul>

## **Appendix B – Uncorrected Misstatements**

The following represent uncorrected misstatements that we presented to management during the current year audit engagement that were determined by management to be immaterial, both individually and in the aggregate, to the consolidation financial statements taken as a whole.

Note that disbursements subsequent to September 30, 2018 were tested using statistical or other sampling techniques and that certain errors in recording accounts payable were found in the sample items selected. The effects of the factual errors identified are understatements of accounts payable and operating expenses of \$1.4 million in the nonmajor governmental funds (which also impacts the governmental activities). To calculate the total amount of errors in accounts payable, a mathematical projection of the errors has been computed, which results in a potential understatement of \$2.9 million of accounts payable and a potential understatement of operating expense of \$2.9 million for the year ended September 30, 2018. The aforementioned factual and potential understatements are not included in the following slides. These were determined by management to be immaterial to the financial statements taken as a whole.

# Appendix B – Uncorrected Misstatements

## Uncorrected misstatements – Austin Water Utility

City of Austin, Texas  
Summary of Uncorrected Misstatements  
Year Ended September 30, 2018

APPENDIX A

### Impact of Uncorrected Misstatements on Financial Statements

Only items that meet the materiality threshold for this fund are included on this schedule.

Water/Wastewater (in 000's)	As Reported at 9/30/2018	Fiscal Year 2018 Adjustments	If Adjusted at 9/30/2018
Assets and Deferred Outflows	\$ 4,654,755	-	\$ 4,654,755
Liabilities and Deferred Inflows	3,744,341		3,744,341
Net Position	910,414		910,414
Total Liabilities, Deferred Inflows, and Net Position	\$ 4,654,755	-	\$ 4,654,755
Operating Revenues	\$ 575,066		\$ 575,066
Operating Expenses	(398,200)		(398,200)
Other Revenue/Expense (Net)	(177,259)		(177,259)
Change in Net Position	(393)		(393)
Beginning Net Position, as restated	910,807		910,807
Ending Net Position	\$ 910,414	-	\$ 910,414

### Prior Year Misstatements Corrected in the Current Year

		Debit	Credit
Known	Pooled investments and cash	\$ 2,654	
	Pooled investments and cash - restricted		\$ (2,654)

*To reclass restricted cash to unrestricted cash*



# Appendix B – Uncorrected Misstatements

## Uncorrected misstatements – Airport

City of Austin, Texas  
Summary of Uncorrected Misstatements  
Year Ended September 30, 2018

APPENDIX A

### Impact of Uncorrected Misstatements on Financial Statements

Only items that meet the materiality threshold for this fund are included on this schedule.

Airport (in 000's)	As Reported at 9/30/2018	Fiscal Year 2018 Adjustments	If Adjusted at 9/30/2018
Assets and Deferred Outflows	\$ 1,840,713	-	\$ 1,840,713
Liabilities and Deferred Inflows	1,238,596		1,238,596
Net Position	602,117		602,117
Total Liabilities, Deferred Inflows, and Net Position	\$ 1,840,713	-	\$ 1,840,713
Operating Revenues	\$ 167,284		\$ 167,284
Operating Expenses	(151,849)		(151,849)
Other Revenue/Expense (Net)	11,402		11,402
Change in Net Position	26,837		26,837
Beginning Net Position, as restated	575,280		575,280
Ending Net Position	\$ 602,117	-	\$ 602,117

### Prior Year Misstatements Corrected in the Current Year

		Debit	Credit
Known	Interest receivable	\$ 1,386	
	Cash		\$ (1,386)

*To reclass accrued interest amount to a receivable instead of cash*

# Appendix B – Uncorrected Misstatements

## Uncorrected misstatements – Nonmajor Enterprise Funds

City of Austin, Texas  
Summary of Uncorrected Misstatements  
Year Ended September 30, 2018

APPENDIX A

### Impact of Uncorrected Misstatements on Financial Statements

Only items that meet the materiality threshold for this fund are included on this schedule.

Nonmajor Enterprise Funds (in 000's)	As Reported at 9/30/2018	Fiscal Year 2018 Adjustments	If Adjusted at 9/30/2018
Assets and Deferred Outflow s	\$ 1,282,856	(3,095)	\$ 1,279,761
Liabilities and Deferred Inflow s	803,543		803,543
Net Position	479,313	(3,095)	476,218
Total Liabilities, Deferred Inflow s, and Net Position	\$ 1,282,856	(3,095)	\$ 1,279,761
Operating Revenues	\$ 370,773		\$ 370,773
Operating Expenses	(395,371)	(3,095)	(398,466)
Other Revenue/Expense (Net)	96,145		96,145
Change in Net Position	71,547	(3,095)	68,452
Beginning Net Position, as restated	407,766		407,766
Ending Net Position	\$ 479,313	(3,095)	\$ 476,218

### Prior Year Misstatements Corrected in the Current Year

	Debit	Credit
Known Pension expense	\$ 3,095	
Deferred outflow - change in proportionate share		\$ (3,095)
<i>To correct change in proportionate share for pensions</i>		

## Appendix C – Definitions of Deficiencies

Deficiency	A <b>deficiency</b> in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis.
Significant Deficiency	A <b>significant deficiency</b> in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.
Material Weakness	A <b>material weakness</b> in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis.

## **Appendix D – Management Representation Letter**



Official Professional Services Sponsor

Professional Services means audit, tax, consulting, and advisory.

#### About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a detailed description of DTTL and its member firms. Please see [www.deloitte.com/us/about](http://www.deloitte.com/us/about) for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.

Copyright © 2018 Deloitte Development LLC. All rights reserved.  
36 USC 220506