City of Austin External Audit Presentation

CONTROLLER'S OFFICE

APRIL 15, 2020



Comprehensive Annual Financial Report (CAFR)

Issued March 6, 2020

https://assets.austintexas.gov/financeonline/downloads/cafr/cafr2019.pdf

Financial Audit Requirements

City Charter (Article VII-16) requires an independent audit by a certified public accountant (CPA) at the close of each fiscal year. The CPA shall be independent from the City or any of its officers. Upon completion, the results shall be published immediately.

Financial policies (*Accounting, Auditing, and Financial Planning #2)* requires an annual audit by an independent CPA firm and issuance of the CAFR no later than 6 months following fiscal year-end.

Financial policies (*Accounting, Auditing, and Financial Planning #3)* requires presentation to the Audit and Finance Committee of the results of the annual audit by the CPA firm no later than 60 days following the issuance of the CAFR.

Debt agreements, including bonds and loans, also often require an independent audit.

Thank You!

- Mayor and Council members, for your continued support of the City's goal of excellence in all aspects of financial management
- City Manager and his Executive team, Chief Financial Officer, and Department Directors, for your support of the Controller's Office and support of excellence in financial management
- City staff, especially the staff in the Controller's Office for their many hours of dedicated service toward completion of these reports
- Deloitte, for the professional and thorough manner in which they conducted this audit



Deloitte Presentation

Deloitte.



City of Austin, Texas
Results of the Audit of the Financial Statements, Including Control-Related Matters

Reem Samra, Managing Director
Jane Chin, Senior Manager
April 15, 2020

Deloitte.

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March 6, 2020

The Audit and Finance Committee
200 W Cesar Chavez St Ste 200
Austin, Texas 78701

Dear Audit and Finance Committee,

We have performed an audit of the basic financial statements of the City of Austin, Texas (the "City") as of and for the year ended September 30, 2019, in accordance with auditing standards generally accepted in the United States of America ("GAAS") and Government Auditing Standards ("GAS") and have issued our report thereon dated March 6, 2020.

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 City that, in our professional judgment, may reasonably be thought to bear on our independence.

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

Yours truly,

Deloitte & Touche LLP

cc: Management of City of Austin, Texas

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Our Responsibility under Generally Accepted Auditing Standards

- Audit of the 2019 Financial Statements
  - Audit performed in accordance with GAAS and Government Auditing Standards
  - Unmodified Opinion on the financial statements
  - Reference to Other auditors for Discretely Presented Component Units
- Other
  - Required supplementary information
  - Other supplementary information
  - Other information in the CAFR
- Our responsibilities
  - Described in our contract dated July 1, 2018 and our engagement letter dated September 27, 2019
  - Management and Audit and Finance Committee of the City Council's responsibilities
  - See details of our responsibilities in **Appendix A**

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Significant Accounting Policies & Accounting Estimates

- Significant accounting policies
  - Included in Note 1 of the City's FY 2019 basic financial statements
  - Not aware of any significant changes

- Significant Accounting estimates
  - Other Post Employment Benefits and related balances
  - Pension Liabilities and related balances
  - Asset Retirement Obligations – Environmental Liabilities
  - Deferred Amounts related to Regulated Operations
  - See assessment in **Appendix B**

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Uncorrected & Corrected Misstatements

- Uncorrected misstatements
  - Audit designed to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud
  - See summary of uncorrected misstatements that were determined immaterial at **Appendix C**

- Corrected misstatements
  - Termination of an interest rate swap derivative in association with a debt refunding: Resulted in a decrease in other nonoperating expenses of $12.4 million and increases in deferred outflows of resources and interest expenses of $11.7 million and $0.7 million, respectively.
  - Treatment of deposits in escrow for an in-progress construction contract: Resulted in a decrease in capital outlay $35 million and an increase in other assets in the capital projects fund of $35 million.

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Other Items

- Written representations from management included as **Appendix D**
- Discussions with other accountants
- Subcontractors
- Control-related matters included as **Appendix E**
- Status of Other Procedures
  - Single Audit Report – in progress
  - Passenger Facility Charges (PFCs) Report – in progress
  - Texas Commission on Environmental Quality (TCEQ) Agreed Upon Procedures Report

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Appendices

- *Appendix A: Our Responsibilities under Generally Accepted Auditing Standards*
- *Appendix B: Accounting Estimates*
- *Appendix C: Summary of Uncorrected Misstatements*
- *Appendix D: Representations from Management*
- *Appendix E: Matters Related to Internal Control over Financial Reporting*

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Appendix A – Our Responsibility Under Generally Accepted Auditing Standards

Our responsibility under generally accepted auditing standards has been described in our contract dated July 1, 2018 and our engagement letter dated September 27, 2019, a copy of which has been provided to you. As described in that letter, the objective of a financial statement audit conducted in accordance with generally accepted auditing standards is to express an opinion on whether each opinion unit in the City's basic financial statements and the accompanying supplementary information, in relation to the basic financial statements as a whole are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles)" and perform specified procedures on the required supplementary information for the year ended September 30, 2019. Our responsibilities under generally accepted auditing standards 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 of the City Council 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 the City Council of their responsibilities.

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.

We did not audit the financial statements 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.

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Appendix A – Our Responsibility (cont.)

When audited financial statements are included in documents containing other unaudited information such as certain information in the City's comprehensive annual financial report ("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.

Required supplementary information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board. We applied certain limited procedures to the required supplementary information, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Appendix B – Accounting Estimates

Overview	Qualitative Assessment
Total Other Postemployment benefits (OPEB) Liability and Related Balances	
• 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. • 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. • This valuation is performed biennially and projected forward to the off years as permitted by GAAP. The liability was measured as of December 31, 2017 and rolled forward to December 31, 2018.	• Performed data analysis and other audit procedures of the underlying data used by the actuary to develop the assumptions and estimates • Involved Deloitte actuarial specialists in the evaluation of the City's actuarial valuation, including the calculations and the reasonableness of assumptions • Reviewed the related disclosures for accuracy and consistency with the actuarial study and GAAP requirements • Management's methodology and resulting amounts were deemed reasonable

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Appendix B – Accounting Estimates (cont.)

Overview	Qualitative Assessment
Net Pension liability and related balances for City's participation in three pension plans	
• Management obtained information from the three pension plans including actuarial valuations, audited plan financial statements, and census data. • 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, 2018. • 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. • During FY19, there was a change in assumptions for the Police pension plan resulting in an indefinite funding period which resulted in a lower discount rate and change in the net pension liability.	• Agreed the total pension liability and fiduciary net position as well as certain disclosures from the audited plan financial statements and actuarial reports to the City's disclosures • Involved Deloitte actuarial specialists in the evaluation of the Plans' actuarial valuations, including testing the calculations and the reasonableness of assumptions • Tested management's allocation of the pension balances to the funds • Either analyzed and tested the census data used by the Plans' actuaries or obtained an audited schedule of pension amounts from the respective Plan • Management's methodology and resulting amounts were deemed reasonable

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Appendix B – Accounting Estimates (cont.)

Overview	Qualitative Assessment
Asset Retirement Obligation – Environmental liabilities	
• Management developed the asset retirement obligations for nuclear assets by applying the latest escalation factors (specifically energy, waste burial, and public utility employee inflation rates) to the costs estimated in 2018 which were developed by specialists. • In FY19 the City implemented GASB Statement No. 83, *Certain Asset Retirement Obligations*. This standard changed the manner of recording of the decommissioning liability.	• Recalculated management's application of the latest escalation factors to the cost estimates • Agreed the escalation factors used to the third-party sources (if applicable) • Obtained an understanding of the qualifications of the specialists • Evaluated with the use of Deloitte specialists, the assumptions and methodology used in the 2018 study • Evaluated and tested the impact of GASB Statement No. 83 on the liability • Management's methodology and resulting amounts were deemed reasonable

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Appendix B – Accounting Estimates (cont.)

Overview	Qualitative Assessment
Deferred amounts related to accounting for regulated operations	
• 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. • 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. • 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.	• Obtained an understanding of changes to management's rate setting process and evaluated whether that the City continued to meet the criteria defined by GAAP • 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 • Tested the amortization period of deferred regulatory costs model • Tested the components of estimates that were significant to the calculation, including the forecast model • Considered the consistency of the application of GAAP, as applicable to the City • Management's methodology and resulting amounts were deemed reasonable

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Appendix C – Summary of Uncorrected Misstatements

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City of Austin, Texas
Summary of Uncorrected Misstatements
Year Ended September 30, 2019

Impact of Uncorrected Misstatements on Financial Statements

Governmental Activities (in 000's)	**As Reported 30-Sep-19**	**Fiscal Year 2019 Adjustments**		**If Adjusted 30-Sep-19**
Assets	$ 4,078,967	$ -	<A>	$ 4,078,967
Deferred Outflows	1,145,454			1,145,454
Assets and Deferred Outflows	5,224,421	-		5,224,421
Liabilities	5,316,888	5,582	<B>	5,322,470
Deferred Inflows	184,387			184,387
Total Liabilities and Deferred Inflows	5,501,275	5,582		5,506,857
Net Position	$ (276,854)	(5,582)		$ (282,436)
Operating and Other revenues	$ 1,570,191			$ 1,570,191
Operating and Other expenses	(1,593,474)	(7,495)	<B>,<C>,<D>,<E>	(1,600,969)
Net change in net position	(23,283)	(7,495)		(30,778)
Beginning net position, as restated	(253,571)	1,913	<C>,<D>,<E>	(251,658)
Ending net position	$ (276,854)	$ (5,582)		$ (282,436)

Adjustments

		Debit	**Credit**
CURRENT YEAR MISSTATEMENTS			
<A>	Other Assets	$ 5,000	
<A>	Capital Assets		$ 5,000
	To reclass amount held in escrow reported as component of capital assets (factual)		
<B>	Postemployment benefits expense	$ 5,582	
<B>	Other postemployment benefits liability		$ 5,582
	To correct OPEB liability and expense due to the use of expected net benefit payments rather than actual net benefit payments (factual)		
PRIOR YEAR MISTATEMENT IMPACT ON CURRENT YEAR (ROLLOVER EFFECT)			
<C>	Net Position	$ 1,431	
<C>	Expenses		$ 1,431
	Misstatement of understated operating expenditures (factual)		
<D>	Net Position	$ 2,865	
<D>	Expenses		$ 2,865
	Estimated misstatement of understated operating expenditures (extrapolated)		
<E>	Expenses	$ 6,209	
<E>	Net Position		$ 6,209
	To record land purchases made in prior years in the government-wide conversion (actual)		

City of Austin, Texas
Summary of Uncorrected Misstatements
Year Ended September 30, 2019

Impact of Uncorrected Misstatements on Financial Statements

Business Type Activities (in 000's)	**As Reported 30-Sep-19**	**Fiscal Year 2019 Adjustments**		**If Adjusted 30-Sep-19**
Assets	$ 13,269,434	$ (1,494)	<A>	$ 13,267,940
Deferred Outflows	721,356			721,356
Assets and Deferred Outflows	13,990,790	(1,494)		13,989,296
Liabilities	8,524,054			8,524,054
Deferred Inflows	1,523,806			1,523,806
Total Liabilities and Deferred Inflows	10,047,860	-		10,047,860
Net Position	$ 3,942,930	(1,494)		$ 3,941,436
Operating and Other revenues	$ 2,739,335			$ 2,739,335
Operating and Other expenses	(2,796,418)	2,334	<A>,<B>, <C>,<D>	(2,794,084)
Capital contributions and transfers	103,017			103,017
Net change in net position	45,934	2,334		48,268
Beginning net position, as restated	3,896,996	(3,828)	<B>,<C>,<D>	3,893,168
Ending net position	$ 3,942,930	$ (1,494)		$ 3,941,436

Adjustments

		Debit	**Credit**
CURRENT YEAR MISSTATEMENTS			
<A>	Depreciation Expense	$ 1,494	
<A>	Accumulated depreciation		$ 1,494
<A>	Depreciable assets	$ 16,249	
<A>	Construction in progress		$ 16,249
	To record completed assets ($8,242 factual and $8,007 judgmental) and the related depreciation expense for Austin Energy construction-in-progress projects that were completed but were not unitized ($697 factual and $797 judgmental)		
PRIOR YEAR MISTATEMENT IMPACT ON CURRENT YEAR (ROLLOVER EFFECT)			
<B>	Net Position	$ 19,278	
<B>	Depreciation Expense		$ 19,278
	To record depreciation expenses for certain "taggable" assets at Austin Energy with incorrect useful lives in fixed asset module (factual)		
<C>	Depreciation Expense	$ 15,300	
<C>	Net Position		$ 15,300
<C>	Net Position	$ 13,216	
<C>	Costs to be recovered		$ 13,216
	To adjust Austin Energy depreciation expense for South Texas Project nuclear assets with incorrect useful lives in the fixed asset module and associated regulatory accounting impact (factual)		
<D>	Costs to be recovered	$ 13,366	
<D>	Net Position		$ 13,366
	To record the change in deferred depreciation for Austin Water resulting from changes in inputs of debt funded asset calculations (factual)		

City of Austin, Texas
Summary of Uncorrected Misstatements
Year Ended September 30, 2019

Impact of Uncorrected Misstatements on Financial Statements

Austin Energy (in 000's)	**As Reported 30-Sep-19**	**Fiscal Year 2019 Adjustments**		**If Adjusted 30-Sep-19**
Assets	$ 5,224,914	$ (1,494)	<A>	$ 5,223,420
Deferred Outflows	385,595			385,595
Assets and Deferred Outflows	5,610,509	(1,494)		5,609,015
Liabilities	3,267,689			3,267,689
Deferred Inflows	434,268			434,268
Total Liabilities and Deferred Inflows	3,701,957	-		3,701,957
Net Position	$ 1,908,552	(1,494)		$ 1,907,058
Operating and Other revenues	$ 1,514,568			$ 1,514,568
Operating and Other expenses	(1,438,681)	15,700	<A>,<B>, <C>,<D>	(1,422,981)
Capital contributions and transfers	(72,487)			(72,487)
Net change in net position	3,400	15,700		19,100
Beginning net position, as restated	1,905,152	(17,194)	<B>,<C>,<D>	1,887,958
Ending net position	$ 1,908,552	$ (1,494)		$ 1,907,058

Adjustments

		Debit	**Credit**
CURRENT YEAR MISSTATEMENTS			
<A>	Depreciation Expense	$ 1,494	
<A>	Accumulated depreciation		$ 1,494
<A>	Depreciable assets	$ 16,249	
<A>	Construction in progress		$ 16,249
	To record completed assets ($8,242 factual and $8,007 judgmental) and the related depreciation expense for Austin Energy construction-in-progress projects that were completed but were not unitized ($697 factual and $797 judgmental)		
PRIOR YEAR MISTATEMENT IMPACT ON CURRENT YEAR (ROLLOVER EFFECT)			
<B>	Net Position	$ 19,278	
<B>	Depreciation Expense		$ 19,278
	To record depreciation expenses for certain "taggable" assets at Austin Energy with incorrect useful lives in fixed asset module (factual)		
<C>	Depreciation Expense	$ 15,300	
<C>	Net Position		$ 15,300
<C>	Net Position	$ 13,216	
<C>	Costs to be recovered		$ 13,216
	To adjust Austin Energy depreciation expense for South Texas Project nuclear assets with incorrect useful lives in the fixed asset module and associated regulatory accounting impact (factual)		

City of Austin, Texas
Summary of Uncorrected Misstatements
Year Ended September 30, 2019

Impact of Uncorrected Misstatements on Financial Statements

Austin Water (in 000's)	**As Reported 30-Sep-19**	**Fiscal Year 2019 Adjustments**		**If Adjusted 30-Sep-19**
Assets	$ 4,597,111	$ -		$ 4,597,111
Deferred Outflows	129,683			129,683
Assets and Deferred Outflows	4,726,794	-		4,726,794
Liabilities	2,949,830			2,949,830
Deferred Inflows	862,407			862,407
Total Liabilities and Deferred Inflows	3,812,237	-		3,812,237
Net Position	$ 914,557	-		$ 914,557
Operating and Other revenues	$ 563,101			$ 563,101
Operating and Other expenses	(584,061)	(6,558)	<A>, <B>,<C>	(590,619)
Capital contributions and transfers	25,103			25,103
Net change in net position	4,143	(6,558)		(2,415)
Beginning net position, as restated	910,414	6,558	<A>,<B>,<C>	916,972
Ending net position	$ 914,557	$ -		$ 914,557

Adjustments

		Debit	**Credit**
PRIOR YEAR MISTATEMENT IMPACT ON CURRENT YEAR (ROLLOVER EFFECT)			
<A>	Net Position	$ 2,244	
<A>	Operating expense		$ 2,244
	Misstatement of overstated construction in progress assets that should have been written off in prior years (factual)		
<B>	Net Position	$ 4,564	
<B>	Operating Cost		$ 4,564
	Misstatement of overstated construction in progress assets that should have been written off in prior years (judgmental)		
<C>	Costs to be recovered	$ 13,366	
<C>	Net Position		$ 13,366
	To record the change in deferred depreciation for Austin Water resulting from changes in inputs of debt funded asset calculations (factual)		

City of Austin, Texas
Summary of Uncorrected Misstatements
Year Ended September 30, 2019

Impact of Uncorrected Misstatements on Financial Statements

Nonmajor Enterprise (in 000's)	**As Reported 30-Sep-19**	**Fiscal Year 2019 Adjustments**	**If Adjusted 30-Sep-19**
Assets	$ 1,323,428		$ 1,323,428
Deferred Outflows	153,918		153,918
Assets and Deferred Outflows	1,477,346	-	1,477,346
Liabilities	955,858	1,531 <A>	957,389
Deferred Inflows	41,107		41,107
Total Liabilities and Deferred Inflows	996,965	1,531	998,496
Net Position	$ 480,381	(1,531)	$ 478,850
Operating and Other revenues	$ 469,144		$ 469,144
Operating and Other expenses	(605,506)	(4,626) <A>,<B>	(610,132)
Capital contributions and transfers	137,430		137,430
Net change in net position	1,068	(4,626)	(3,558)
Beginning net position, as restated	479,313	3,095 <B>	482,408
Ending net position	$ 480,381	$ (1,531)	$ 478,850

Adjustments

		Debit	**Credit**
CURRENT YEAR MISSTATEMENTS			
<A>	Postemployment benefits expense	$ 1,531	
<A>	Other postemployment benefits liability		$ 1,531
	To correct OPEB liability and expense due to the use of expected net benefit payments rather than actual net benefit payments (factual)		
PRIOR YEAR MISTATEMENT IMPACT ON CURRENT YEAR (ROLLOVER EFFECT)			
<B>	Net Position	$ 3,095	
<B>	Pension Expense		$ 3,095
	To record change in impacts of change in proportionate share for pension benefit plans (factual)		

City of Austin, Texas
Summary of Uncorrected Misstatements
Year Ended September 30, 2019

Impact of Uncorrected Misstatements on Financial Statements

Nonmajor Governmental (in 000's)	**As Reported 30-Sep-19**	**Fiscal Year 2019 Adjustments**		**If Adjusted 30-Sep-19**
Assets	$ 569,340	$ 5,000	<A>	$ 574,340
Deferred Outflows	-			-
Assets and Deferred Outflows	569,340	5,000		574,340
Liabilities	184,855			184,855
Deferred Inflows	6,959			6,959
Total Liabilities and Deferred Inflows	191,814	-		191,814
Fund Balance	$ 377,526	5,000		$ 382,526
Operating and Other revenues	$ 453,181			$ 453,181
Operating and Other expenses	(502,721)	9,296	<A>,<B>,<C>	(493,425)
Other financing sources (uses)	60,545			60,545
Change in Fund Balance	11,005	9,296		20,301
Beginning Fund Balance	366,521	(4,296)	<B>,<C>	362,225
Ending Fund Balance	$ 377,526	$ 5,000		$ 382,526

Adjustments

		Debit	**Credit**
CURRENT YEAR MISSTATEMENTS			
<A>	Other Assets	$ 5,000	
<A>	CIP - Capital Outlay		$ 5,000
	To reclass amount held in escrow reported as capital outlay (factual)		
PRIOR YEAR MISTATEMENT IMPACT ON CURRENT YEAR (ROLLOVER EFFECT)			
<B>	Net Position	$ 1,431	
<B>	Expenses		$ 1,431
	Misstatement of understated operating expenditures (factual)		
<C>	Net Position	$ 2,865	
<C>	Expenses		$ 2,865
	Estimated misstatement of understated operating expenditures (extrapolated)		

Appendix D – Representations from Management

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City of Austin
Controller's Office, 124 W. 8th St., Austin, Texas 78701 controllers.office@austintexas.gov
P.O. Box 2920, Austin, Texas 78768 Telephone 512/974-2600

March 6, 2020

Deloitte & Touche LLP
500 W 2nd Street, Ste. 1600
Austin, TX 78701

We are providing this letter in connection with your audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Austin, Texas (the "City"), as of and for the year ended September 30, 2019, which collectively comprise the City's basic financial statements for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations or changes in fund balances, and cash flows, as applicable, of the City in accordance with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

a. The preparation and fair presentation in the basic financial statements of financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, in accordance with GAAP.
b. The design, implementation, and maintenance of internal control:
    - Relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
    - To prevent and detect fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

1. The basic financial statements referred to above are fairly presented in accordance with GAAP. In addition:

    a. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
    b. Net position components (net investment in capital assets, restricted, and unrestricted) are properly classified and, if applicable, approved.
    c. Deposits and investment securities are properly classified in the category of custodial credit risk.
    d. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated. Related costs have been recognized as an expense in the period in which the costs are incurred, in accordance with GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*.
    e. Required supplementary information is measured and presented within prescribed guidelines.
    f. Applicable laws and regulations are followed in adopting, approving, and amending budgets.
    g. The City's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available is appropriately disclosed and the related net position is properly recognized under the policy.

h. The financial statements properly classify all funds and activities, including special and extraordinary items.

i. All funds that meet the quantitative criteria in the GASB Codification Section 2200.159 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

j. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

k. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

l. The City has followed Governmental Accounting and Financial Reporting Standards (the "GASB Codification") Section 1800.178 regarding which resources (restricted, committed, assigned, or unassigned) are considered to be spent for expenditures to determine the fund balance classifications for financial reporting purposes.

m. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

n. Fund balance restrictions, commitments, and assignments are properly classified and, if applicable, approved.

2. The City has provided to you all relevant information and access as agreed in the terms of the audit engagement letter (contract number MA-7400-PA180000028).

3. The City has made available to you:

   a. All minutes of the meetings of City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.

   b. All financial records and related data for all financial transactions of the City and for all funds administered by the City. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the City and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.

   c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal and state agencies.

4. There has been no:

   a. Action taken by City management that contravenes the provisions of federal laws and State of Texas laws and regulations, or of contracts and grants applicable to the City.

   b. Communications with other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.

5. We believe the effects of any uncorrected financial statement misstatements and/or differences in estimating valuations aggregated by you during the current audit engagement and pertaining to the latest period in the current year are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements and differences in estimating valuations has been attached as Appendix A.

7. The City has disclosed to you the results of management's risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud.

8. We have no knowledge of any fraud or suspected fraud affecting the City involving:

   a. Management

   b. Employees who have significant roles in the City's internal control over financial reporting.

   c. Others, where the fraud could have a material effect on the financial statements.

9. We have no knowledge of any allegations of fraud or suspected fraud affecting the City's financial statements communicated by employees, former employees, analysts, regulators, or others, except for those already discussed with you.

10. There are no unasserted claims or assessments that we are aware of or that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification Section C50, *Claims and Judgments*.

11. Significant assumptions used by us in making accounting estimates are reasonable.

12. We are responsible for the preparation of the Schedule of Expenditures of Federal and State Awards in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("OMB Uniform Guidance") and the State of Texas Uniform Grant Management Standards ("UGMS"). We have identified and disclosed all of the City's government programs and related activities subject to the OMB Uniform Guidance and UGMS compliance audit. In addition, we will accurately complete the appropriate sections of the data collection form.

13. We are responsible for compliance with local, state, and federal laws, rules, and regulations, including compliance with the requirements of OMB Uniform Guidance and UGMS, and the provisions of grants and contracts relating to the City's operations. We are responsible for understanding and complying with the requirements of the federal statutes, regulations, and the terms and conditions of federal awards related to each of the City's federal programs. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. We are responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.

14. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal and state programs that provides reasonable assurance that we are managing federal and state awards in compliance with federal and state statutes, regulations, and the terms and conditions of the federal and state awards that could have a material effect on its federal and state programs.

15. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all such deficiencies that are significant deficiencies or material weaknesses in internal control over financial reporting.

16. No events have occurred subsequent to September 30, 2019 that require consideration as adjustments to or disclosures in the schedule of federal and state awards and related notes or that existed at the end of the reporting period that affect noncompliance during the reporting period.

17. We have disclosed all known noncompliance with direct and material compliance requirements occurring subsequent to September 30, 2019.

18. No changes in internal control over compliance or other factors that might significantly affect internal control over financial reporting, including any corrective actions taken by the City with regard to significant deficiencies and material weaknesses in internal control over compliance, have occurred subsequent to September 30, 2019.

19. Federal and state awards expenditures have been charged in accordance with applicable cost principles.

20. The Reporting Package will be submitted to the Federal Audit Clearinghouse (FAC) as defined by the OMB Uniform Guidance section 2CFR200.512(3)(c) and will not contain protected personally identifiable information.

21. We have disclosed all contracts or other agreements with service organizations.

22. We have disclosed to you all communications from service organizations relating to noncompliance with the requirements of federal and state statutes, regulations, and terms and conditions of federal and state awards at those organizations.

23. We have:

    a. Identified and disclosed to you the requirements of federal and state statutes, regulations, and the terms and conditions of federal and state awards that are considered to have a direct and material effect on each major program under audit.

    b. Complied, in all material respects, with the direct and material compliance requirements identified above in connection with federal and state awards except as disclosed in the Schedule of Findings and Questioned Costs.

    c. Identified and disclosed interpretations of any compliance requirements that have varying interpretations.

    d. Made available all federal and state awards (including amendments, if any) and any other correspondence relevant to federal and state programs and related activities that have taken place with federal and state agencies or pass-through entities. Management has made available all documentation related to compliance with the direct and material compliance requirements, including information related to federal and state program financial reports and claims for advances and reimbursements. Federal and state financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal and State Awards. The copies of federal and state program financial reports provided are true copies of the reports submitted, or electronically transmitted, to the federal and state agency or pass-through entity, as applicable.

    e. Identified and disclosed all amounts questioned and all known noncompliance with the direct and material compliance requirements of federal and state awards, including the results of other audits, program reviews, or any communications from federal and state awarding agencies and pass-through entities concerning possible noncompliance related to the objectives of the audit.

    f. Identified previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit and the corrective actions taken to address significant findings and recommendations, including the status of follow-up on prior audit findings (and information about all management decisions) by federal and state awarding agencies and pass-through entities.

    g. Provided to you our views on the reported findings, conclusions, and recommendations for your report.

    h. Monitored subrecipients to determine that they have expended subawards in compliance with federal and state statutes, regulations, and terms and conditions of the subaward and have met the other pass-through entity requirements of OMB Uniform Guidance and UGMS.

    i. Issued management decisions for audit findings that relate to federal and state awards made to subrecipients. Such management decisions were issued within six months of acceptance of the audit report by the FAC. Additionally, we have followed up to determine whether the subrecipient has taken timely and appropriate action on all deficiencies detected through audits, on-site reviews, and other means that pertain to the federal and state award provided to the subrecipient from the City.

    j. Considered the results of the subrecipient's audits and made any necessary adjustments to the City's own books and records.

24. We are responsible for follow-up on all prior-year(s) findings. We have prepared a summary schedule of prior-year findings by federal and state awarding agency and pass-through entity, including all management decisions, to report the status of our efforts in implementation of the prior-year's corrective action plan. The summary schedule of prior audit findings includes all findings required to be included in accordance with OMB Uniform Guidance and UGMS.

25. We are responsible for taking corrective action on audit findings and have developed a corrective action plan that meets the requirements of OMB Uniform Guidance and UGMS. We have included in the corrective action plan for current-year findings, the name of the person in our organization responsible for implementation of the actions, the best actions to be taken, and the estimate of a completion date. We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that you report.

26. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

27. We believe that we have properly identified, reported, and classified each component unit of the City and each organization that meets the criteria established in GASB Codification Section 2100, *Defining the Financial Reporting Entity*.

28. The City has appropriately identified and disclosed all segments in accordance with GASB Codification Section 2500, *Segment Information*.

29. The City recognized an asset retirement obligation related to certain Austin Energy and Austin Water assets because both external obligating events and an internal obligating event resulting from normal operations have occurred as of balance-sheet date, and the amount of the liability is reasonably estimable. The City has properly disclosed all information related to the asset retirement obligations.

30. The City has recorded certain investment pools measured at amortized costs as of September 30, 2019. We have evaluated the criteria in paragraph 4 of GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, and have determined that the pools measured at amortized cost meet the criteria for amortized cost reporting.

31. Tax-exempt bonds issued have retained their tax-exempt status.

32. The Entity has appropriately identified and recorded all intangible assets under GASB Codification Section 1400.138 – 1400.153, *Intangible Assets*.

33. We have complied with all applicable provisions of the Foreign Corrupt Practices Act.

Except where otherwise stated below, immaterial matters less than $$3,000,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to, or disclosure in, the basic financial statements.

34. Except as listed in Appendix A there are no transactions that have not been properly recorded and reflected in the financial statements.

35. The City has no plans or intentions that may affect the carrying value or classification of assets and liabilities.

36. Regarding related parties:

    a. We have disclosed to you the identity of the City's related parties and all the related-party relationships and transactions of which we are aware.
    b. To the extent applicable, related parties and all the related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the financial statements.

37. In preparing the financial statements in accordance with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:

a. It is reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
b. The effect of the change would be material to the financial statements.

38. There are no:

a. Instances of identified or suspected noncompliance with laws, regulations, or provisions of contracts or grant agreements whose effects should be considered when preparing the financial statements, or other instances that warrant the attention of those charged with governance.
b. Known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and that have not been disclosed to you and accounted for and disclosed in accordance with GAAP.
c. Known actual or likely instances of abuse that have occurred that could be quantitatively or qualitatively material to the financial statements.
d. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*.

39. The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral.

40. The City has complied with all aspects of contractual agreements that may affect the financial statements.

41. No department or agency of the City has reported a material instance of noncompliance to us.

42. The City has identified all derivative instruments as defined by GASB Codification Section D40, Derivative *Instruments*, and appropriately recorded and disclosed such derivatives in accordance with GASB Codification Section D40.

43. We have identified the following significant assumptions and factors affecting derivatives as disclosed in Note 9. The assumptions are reflective of management's intent and ability to carry out specific courses of action and the significant assumptions used are consistent with the City's plans and past experience.

44. Other than those described in Note 19 to the financial statements, no events have occurred after September 30, 2019, but before March 6, 2020, the date the financial statements were issued that require consideration as adjustments to, or disclosures in, the financial statements.

45. Regarding required supplementary information:

a. We confirm that we are responsible for the required supplementary information.
b. The required supplementary information is measured and presented in accordance with GASB Standards.
c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.

46. Regarding supplementary information:

a. We are responsible for the preparation and fair presentation of the supplementary information in accordance with GAAP and the Government Finance Officers' Association (GFOA) guidelines.
b. We believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP and GFOA guidelines.
c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.

47. Financial instruments with significant individual or group concentration of credit risk have been appropriately identified, properly recorded, and disclosed in the financial statements.

48. The City has properly identified all derivative instruments and any financial instruments that contain embedded derivatives. The City's hedging activities, if any, are in accordance with its documented and approved hedging and risk management policies, and all appropriate hedge documentation was in place at the inception of the hedge in accordance with GASB Codification Section D40, *Derivative Instruments.* Specifically, we have appropriately designated all hedging instruments as either fair value or cash flow hedges or hedges of the foreign currency exposure of a net investment in a foreign operation. The timing, nature, and amounts of all forecasted transactions are probable of occurring. The fair values of all derivatives, embedded derivatives that have been bifurcated, financial instruments that contain embedded derivatives for which the City has elected to measure the financial instruments at fair value in their entirety (pursuant to the provisions of GASB Codification Section D40), and hedged items have been determined based on GAAP using prevailing market prices or by using financial models that are the most appropriate models for valuing such instruments and that incorporate market data and other assumptions that we have determined to be reasonable and appropriate at September 30, 2019.

49. The City has determined whether a capital asset has been impaired in accordance with GASB Codification Section 1400.180 – 1400.200, Impairment of Capital Assets. In making this determination, the City considered the following factors:

    a. The magnitude of the decline in service utility is significant.

    b. The decline in service utility is unexpected.

50. The City has properly identified and accounted for all pollution remediation activities in accordance with GASB Codification Section P40, *Pollution Remediation Obligations*. In performing this assessment, we considered whether one of the five obligating events had occurred and whether a recognition benchmark had been met. There are currently no other activities that meet the criteria in the standard for recognition of an expenditure.

51. We agree with the findings of management's expert in evaluating the workers' compensation liabilities, pension and health care related liabilities, and other post-employment benefits and have adequately considered the qualifications of management's expert in determining amounts and disclosures used in the financial statements and underlying accounting records. We did not give any instructions, nor cause any instructions to be given, to management's expert with respect to values or amounts derived in an attempt to bias his or her work, and we are not aware of any matters that have affected the independence or objectivity of management's expert.

52. We have appropriately identified and properly recorded and disclosed in the financial statements all interfund transactions, including repayment terms.

53. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed in the financial statements.

54. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.

55. Provision has been made to reduce excess or obsolete inventories to their estimated net realizable value. All inventories are the property of the City and do not include any items consigned to it or any items billed to customers.

56. We believe that all expenditures that have been deferred to future periods are recoverable.

57. The City will adopt the provisions of GASB Statement No. 87, *Leases*, on October 1, 2020. The City has evaluated its leases and has properly classified, recognized, and reported all leases in accordance with the recognition, measurement, financial reporting, and disclosure requirements set forth in GASB Codification Section L20, *Leases*.

58. There are a number of limitations and restrictions contained in the City's various bond indentures. We believe that the City is in compliance with all such limitations and restrictions.

59. Over-the-counter agreements expose Austin Energy to credit, termination, and non-performance risk. However, management believes that Austin Energy's exposure to termination and non-performance risk is minimal due to the high credit rating of the counterparties and the contractual provisions under the International Swaps and Derivatives Association ("ISDA") agreement applied to these contracts.

60. The City participates in numerous state and federal programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the grant programs are subject to audit and adjustment by the grantor agencies. Management believes that no material liability will arise from any such audits.

61. The City intends and has the ability to refinance maturing commercial paper notes by issuing long-term debt. Commercial paper notes have been presented as long-term liabilities in accordance with GASB Codification Section 1500, *Reporting Liabilities*, due to letter of credit agreements associated with the commercial paper notes. If the remarketing agent is unable to successfully remarket the notes, the notes will be purchased by the respective liquidity providers and become bank notes with principal to be paid in 12 equal, quarterly installments.

62. All revenues generated by Austin-Bergstrom International Airport are expended for the capital or operating costs of the airport, the local airport system, or other local facilities which are owned or operated by the City and are directly and substantially related to the actual air transportation and passengers or property.

63. We have disclosed to you all new or changes to the existing pension and other postretirement plans.

64. We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances. These amounts have been appropriately recognized and displayed as assets, liabilities, and, where applicable, deferred inflows, deferred outflows, net position and changes in net position in the City's financial statements in accordance with GASB Codification Section P20, *Pension Activities — Reporting for Benefits Provided through Trusts That Meet Specified Criteria — Defined Benefit.*

65. We have no intention of terminating any of our pension plans or taking any other action that could result in an effective termination or reportable event for any of the plans. We are not aware of any occurrences that could result in the termination of any of our pension plans to which we contribute.

66. We believe that the actuarial assumptions and methods used to measure postretirement liabilities and costs for financial accounting purposes are appropriate in the circumstances. These amounts have been appropriately recognized and displayed as assets, liabilities, and, where applicable, net position and changes in net position in the City's financial systems in accordance with GASB Codification Section P52*, Postemployment Benefits Other than Pensions — Reporting for Benefits Not Provided through Trusts That Meet Specified Criteria — Defined Benefit.*

67. We do not plan to make frequent amendments to our pension or other postretirement benefit plans.

68. We have properly recorded and disclosed concession arrangements with third-party operators in the financial statements in accordance with GASB Codification Section S30, *Service Concession Arrangements*.

69. A number of claims and lawsuits against the City are pending with respect to various matters arising in the normal course of the City's operations. Legal counsel and City management believe that settlement of these claims and pending litigation will not have a material effect on the City's financial statements.

70. The City has the intention and ability to renew its LCRA water rights lease for an additional 50-year term beginning January 1, 2051.

71. The City believes the counterparties to the futures will be viable for the foreseeable future.

72. The City was in compliance with the Build America Bonds compliance requirements as of September 30, 2019.

73. The City is subject to various rate regulatory matters and, using its best estimate based on reasonable and supportable assumptions and projections, has made provision for any probable and reasonably estimable disallowances or liabilities due to customers as a result of such matters.

74. All regulatory assets and liabilities have been recorded in accordance with the orders or other guidance of the City's regulatory commissions and in accordance with the provisions of GASB Codification Section Re10, *Regulated Operations*. Regulatory assets represent incurred costs that are probable of recovery from future revenues. Regulatory liabilities represent amounts imposed by rate actions of the City's regulators that may require refunds to customers, represent amounts provided in current rates that are intended to recover costs that are expected to be incurred in the future for which the City remains accountable, or represent a gain or other reduction of allowable costs to be given to customers over future periods. All expenditures that have been deferred to future periods are recoverable.

75. All documentation related to sales transactions is contained in customer files. We also confirm that:

    a. We are not aware of any "side agreements" with any companies that are inconsistent with the applicable sales agreement, the customer's purchase order, sales invoice, or any other documentation contained in the customer's file. For the purposes of this letter, a "side agreement" is any agreement, understanding, promise, or commitment, whether written (e.g., in the form of a letter or formal agreement or in the form of any exchange of physical or electronic communications) or oral, by or on behalf of the City (or any subsidiary, director, employee, or agent of the City) with a customer from whom revenue has been recognized that is not contained in the written purchase order from the customer or sales order confirmation and sales invoice of the City delivered to or generated by the City's Accounting and Finance Department. The definition of a side agreement is not limited by any particular subject matter. For purposes of example only, any agreement not contained in the written purchase order from the customer or sales order and sales invoice of the City that relates to return rights, acceptance rights, future pricing, payment terms, free consulting, free maintenance, or exchange rights would be a side agreement.
    b. We are not aware of any commitments or concessions to a customer regarding pricing or payment terms outside of the terms documented in the customer's file.

76. Regarding tax abatement agreements, in accordance with GASB Codification Section 2300.107, *Notes to the Financial Statements*, we have disclosed to you all:

    a. Agreements that are entered into by the City; and
    b. Agreements that are entered into by other governments and that reduce the City's tax revenues.

Elaine Hart, Chief Financial Officer

Diana Thomas, Controller

cc: Audit and Finance Committee of the City of Austin

City of Austin, Texas **APPENDIX A**
Summary of Uncorrected Misstatements
Year Ended September 30, 2019

Impact of Uncorrected Misstatements on Financial Statements

Governmental Activities (in 000's)	**As Reported 30-Sep-19**	**Fiscal Year 2019 Adjustments**		**If Adjusted 30-Sep-19**
Assets	$ 4,078,967	$ -	<A>	$ 4,078,967
Deferred Outflows	1,145,454			1,145,454
Assets and Deferred Outflows	5,224,421	-		5,224,421
Liabilities	5,316,888	5,582	<B>	5,322,470
Deferred Inflows	184,387			184,387
Total Liabilities and Deferred Inflows	5,501,275	5,582		5,506,857
Net Position	$ (276,854)	(5,582)		$ (282,436)
Operating and Other revenues	$ 1,570,191			$ 1,570,191
Operating and Other expenses	(1,593,474)	(7,495)	<B>,<C>,<D>,<E>	(1,600,969)
Net change in net position	(23,283)	(7,495)		(30,778)
Beginning net position, as restated	(253,571)	1,913	<C>,<D>,<E>	(251,658)
Ending net position	$ (276,854)	$ (5,582)		$ (282,436)

Adjustments

		Debit	**Credit**
CURRENT YEAR MISSTATEMENTS			
<A>	Other Assets	$ 5,000	
<A>	Capital Assets		$ 5,000
	To reclass amount held in escrow reported as component of capital assets (factual)		
<B>	Postemployment benefits expense	$ 5,582	
<B>	Other postemployment benefits liability		$ 5,582
	To correct OPEB liability and expense due to the use of expected net benefit payments rather than actual net benefit payments (factual)		
PRIOR YEAR MISTATEMENT IMPACT ON CURRENT YEAR (ROLLOVER EFFECT)			
<C>	Net Position	$ 1,431	
<C>	Expenses		$ 1,431
	Misstatement of understated operating expenditures (factual)		
<D>	Net Position	$ 2,865	
<D>	Expenses		$ 2,865
	Estimated misstatement of understated operating expenditures (extrapolated)		
<E>	Expenses	$ 6,209	
<E>	Net Position		$ 6,209
	To record land purchases made in prior years in the government-wide conversion (actual)		

City of Austin, Texas **APPENDIX A**
Summary of Uncorrected Misstatements
Year Ended September 30, 2019

Impact of Uncorrected Misstatements on Financial Statements

Business Type Activities (in 000's)	**As Reported 30-Sep-19**	**Fiscal Year 2019 Adjustments**		**If Adjusted 30-Sep-19**
Assets	$ 13,269,434	$ (1,494)	<A>	$ 13,267,940
Deferred Outflows	721,356			721,356
Assets and Deferred Outflows	13,990,790	(1,494)		13,989,296
Liabilities	8,524,054			8,524,054
Deferred Inflows	1,523,806			1,523,806
Total Liabilities and Deferred Inflows	10,047,860	-		10,047,860
Net Position	$ 3,942,930	(1,494)		$ 3,941,436
Operating and Other revenues	$ 2,739,335			$ 2,739,335
Operating and Other expenses	(2,796,418)	2,334	<A>,<B>, <C>,<D>	(2,794,084)
Capital contributions and transfers	103,017			103,017
Net change in net position	45,934	2,334		48,268
Beginning net position, as restated	3,896,996	(3,828)	<B>,<C>,<D>	3,893,168
Ending net position	$ 3,942,930	$ (1,494)		$ 3,941,436

Adjustments

		Debit	**Credit**
CURRENT YEAR MISSTATEMENTS			
<A>	Depreciation Expense	$ 1,494	
<A>	Accumulated depreciation		$ 1,494
<A>	Depreciable assets	$ 16,249	
<A>	Construction in progress		$ 16,249
	To record completed assets ($8,242 factual and $8,007 judgmental) and the related depreciation expense for Austin Energy construction-in-progress projects that were completed but were not unitized ($697 factual and $797 judgmental)		
PRIOR YEAR MISTATEMENT IMPACT ON CURRENT YEAR (ROLLOVER EFFECT)			
<B>	Net Position	$ 19,278	
<B>	Depreciation Expense		$ 19,278
	To record depreciation expenses for certain "taggable" assets at Austin Energy with incorrect useful lives in fixed asset module (factual)		
<C>	Depreciation Expense	$ 15,300	
<C>	Net Position		$ 15,300
<C>	Net Position	$ 13,216	
<C>	Costs to be recovered		$ 13,216
	To adjust Austin Energy depreciation expense for South Texas Project nuclear assets with incorrect useful lives in the fixed asset module and associated regulatory accounting impact (factual)		
<D>	Costs to be recovered	$ 13,366	
<D>	Net Position		$ 13,366
	To record the change in deferred depreciation for Austin Water resulting from changes in inputs of debt funded asset calculations (factual)		

City of Austin, Texas **APPENDIX A**
Summary of Uncorrected Misstatements
Year Ended September 30, 2019

Impact of Uncorrected Misstatements on Financial Statements

Austin Energy (in 000's)	**As Reported 30-Sep-19**	**Fiscal Year 2019 Adjustments**		**If Adjusted 30-Sep-19**
Assets	$ 5,224,914	$ (1,494)	<A>	$ 5,223,420
Deferred Outflows	385,595			385,595
Assets and Deferred Outflows	5,610,509	(1,494)		5,609,015
Liabilities	3,267,689			3,267,689
Deferred Inflows	434,268			434,268
Total Liabilities and Deferred Inflows	3,701,957	-		3,701,957
Net Position	$ 1,908,552	(1,494)		$ 1,907,058
Operating and Other revenues	$ 1,514,568			$ 1,514,568
Operating and Other expenses	(1,438,681)	15,700	<A>,<B>, <C>	(1,422,981)
Capital contributions and transfers	(72,487)			(72,487)
Net change in net position	3,400	15,700		19,100
Beginning net position, as restated	1,905,152	(17,194)	<B>,<C>	1,887,958
Ending net position	$ 1,908,552	$ (1,494)		$ 1,907,058

Adjustments

		Debit	**Credit**
CURRENT YEAR MISSTATEMENTS			
<A>	Depreciation Expense	$ 1,494	
<A>	Accumulated depreciation		$ 1,494
<A>	Depreciable assets	$ 16,249	
<A>	Construction in progress		$ 16,249
	To record completed assets ($8,242 factual and $8,007 judgmental) and the related depreciation expense for Austin Energy construction-in-progress projects that were completed but were not unitized ($697 factual and $797 judgmental)		
PRIOR YEAR MISTATEMENT IMPACT ON CURRENT YEAR (ROLLOVER EFFECT)			
<B>	Net Position	$ 19,278	
<B>	Depreciation Expense		$ 19,278
	To record depreciation expenses for certain "taggable" assets at Austin Energy with incorrect useful lives in fixed asset module (factual)		
<C>	Depreciation Expense	$ 15,300	
<C>	Net Position		$ 15,300
<C>	Net Position	$ 13,216	
<C>	Costs to be recovered		$ 13,216
	To adjust Austin Energy depreciation expense for South Texas Project nuclear assets with incorrect useful lives in the fixed asset module and associated regulatory accounting impact (factual)		

No <D>, removed above

City of Austin, Texas **APPENDIX A**
Summary of Uncorrected Misstatements
Year Ended September 30, 2019

Impact of Uncorrected Misstatements on Financial Statements

Austin Water (in 000's)	**As Reported 30-Sep-19**	**Fiscal Year 2019 Adjustments**		**If Adjusted 30-Sep-19**
Assets	$ 4,597,111	$ -		$ 4,597,111
Deferred Outflows	129,683			129,683
Assets and Deferred Outflows	4,726,794	-		4,726,794
Liabilities	2,949,830			2,949,830
Deferred Inflows	862,407			862,407
Total Liabilities and Deferred Inflows	3,812,237	-		3,812,237
Net Position	$ 914,557	-		$ 914,557
Operating and Other revenues	$ 563,101			$ 563,101
Operating and Other expenses	(584,061)	(6,558)	**<A>, <B>,<C>**	(590,619)
Capital contributions and transfers	25,103			25,103
Net change in net position	4,143	(6,558)		(2,415)
Beginning net position, as restated	910,414	6,558	**<A>,<B>,<C>**	916,972
Ending net position	$ 914,557	$ -		$ 914,557

Adjustments

		Debit	**Credit**
PRIOR YEAR MISTATEMENT IMPACT ON CURRENT YEAR (ROLLOVER EFFECT)			
<A>	Net Position	$ 2,244	
<A>	Operating expense		$ 2,244
	Misstatement of overstated construction in progress assets that should have been written off in prior years (factual)		
<B>	Net Position	$ 4,564	
<B>	Operating Cost		$ 4,564
	Misstatement of overstated construction in progress assets that should have been written off in prior years (judgmental)		
<C>	Costs to be recovered	$ 13,366	
<C>	Net Position		$ 13,366
	To record the change in deferred depreciation for Austin Water resulting from changes in inputs of debt funded asset calculations (factual)		

City of Austin, Texas **APPENDIX A**
Summary of Uncorrected Misstatements
Year Ended September 30, 2019

Impact of Uncorrected Misstatements on Financial Statements

Nonmajor Enterprise (in 000's)	**As Reported 30-Sep-19**	**Fiscal Year 2019 Adjustments**	**If Adjusted 30-Sep-19**
Assets	$ 1,323,428		$ 1,323,428
Deferred Outflows	153,918		153,918
Assets and Deferred Outflows	1,477,346	-	1,477,346
Liabilities	955,858	1,531 **<A>**	957,389
Deferred Inflows	41,107		41,107
Total Liabilities and Deferred Inflows	996,965	1,531	998,496
Net Position	$ 480,381	(1,531)	$ 478,850
Operating and Other revenues	$ 469,144		$ 469,144
Operating and Other expenses	(605,506)	(4,626) **<A>,<B>**	(610,132)
Capital contributions and transfers	137,430		137,430
Net change in net position	1,068	(4,626)	(3,558)
Beginning net position, as restated	479,313	3,095 **<B>**	482,408
Ending net position	$ 480,381	$ (1,531)	$ 478,850

Adjustments

		Debit	**Credit**
CURRENT YEAR MISSTATEMENTS			
<A>	Postemployment benefits expense	$ 1,531	
<A>	Other postemployment benefits liability		$ 1,531
	To correct OPEB liability and expense due to the use of expected net benefit payments rather than actual net benefit payments (factual)		
PRIOR YEAR MISTATEMENT IMPACT ON CURRENT YEAR (ROLLOVER EFFECT)			
<B>	Net Position	$ 3,095	
<B>	Pension Expense		$ 3,095
	To record change in impacts of change in proportionate share for pension benefit plans (factual)		

City of Austin, Texas **APPENDIX A**
Summary of Uncorrected Misstatements
Year Ended September 30, 2019

Impact of Uncorrected Misstatements on Financial Statements

Nonmajor Governmental (in 000's)	**As Reported 30-Sep-19**	**Fiscal Year 2019 Adjustments**		**If Adjusted 30-Sep-19**
Assets	$ 569,340	$ 5,000	<A>	$ 574,340
Deferred Outflows	-			-
Assets and Deferred Outflows	569,340	5,000		574,340
Liabilities	184,855			184,855
Deferred Inflows	6,959			6,959
Total Liabilities and Deferred Inflows	191,814	-		191,814
Fund Balance	$ 377,526	5,000		$ 382,526
Operating and Other revenues	$ 453,181			$ 453,181
Operating and Other expenses	(502,721)	9,296	<A>,<B>, <C>	(493,425)
Other financing sources (uses)	60,545			60,545
Change in Fund Balance	11,005	9,296		20,301
Beginning Fund Balance	366,521	(4,296)	<B>,<C>	362,225
Ending Fund Balance	$ 377,526	$ 5,000		$ 382,526

Adjustments

		Debit	**Credit**
CURRENT YEAR MISSTATEMENTS			
<A>	Other Assets	$ 5,000	
<A>	CIP - Capital Outlay		$ 5,000
	To reclass amount held in escrow reported as capital outlay (factual)		
PRIOR YEAR MISTATEMENT IMPACT ON CURRENT YEAR (ROLLOVER EFFECT)			
<B>	Net Position	$ 1,431	
<B>	Expenses		$ 1,431
	Misstatement of understated operating expenditures (factual)		
<C>	Net Position	$ 2,865	
<C>	Expenses		$ 2,865
	Estimated misstatement of understated operating expenditures (extrapolated)		

City of Austin
Controller's Office, 124 W. 8th St., Austin, Texas 78701
P.O. Box 2920, Austin, Texas 78768 Telephone 512/974-2600
controllers.office@austintexas.gov

April 9, 2020

Deloitte & Touche LLP
500 West 2nd Street
Suite 1600
Austin, Texas 78701

In connection with your audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Austin, Texas (the "City"), as of and for the year ended September 30, 2019, which collectively comprise the City's basic financial statements for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations or changes in fund balances, and cash flows, as applicable, of the City in accordance with accounting principles generally accepted in the United States of America, you were previously provided with a representation letter dated March 6, 2020. No information has come to our attention that would cause us to believe that any of those previous representations should be modified.

To the best of our knowledge and belief, no events have occurred subsequent to September 30, 2019 and through the date of this letter that would require adjustment to or disclosure in those financial statements.

Elaine Hart

Elaine Hart, Chief Financial Officer

Diana Thomas

Diana Thomas, Controller

Appendix E – Matters Related to Internal Control over Financial Reporting

SECTION I — SIGNIFICANT DEFICIENCIES

We consider the following deficiency in the City's internal control over financial reporting to be a significant deficiency as of September 30, 2019:

Finding 2019-001: Significant Deficiency in Internal Controls – Accounting for Significant Nonroutine Transactions

- Criteria – Effective controls should be designed and implemented to ensure significant nonroutine transactions are properly accounted for and reported.

- Condition – Due to the size and diversity of the City's business operations, the financial accounting and reporting is very complex. In addition to the traditional governmental services, the City also owns and operates an electric utility, a water/wastewater utility, an airport, and several other large enterprise operations. City staff are required to possess specific accounting expertise to fulfill the increased accounting and reporting requirements brought about by the Governmental Accounting Standards Board ("GASB"). City staff must understand the internal processes of the City and have the ability to analyze business operations and specific transactions to determine the impact on the City's financial statements. During our audit of the financial statements, we noted nonroutine transactions with complex technical accounting requirements, such as the termination of an interest rate swap derivative in association with a debt refunding, and treatment of deposits in escrow for an in-progress construction contract that were not properly recorded in the fund level financial statements and thus required audit adjustments.

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Appendix E – Matters Related to Internal Control over Financial Reporting (cont.)

Finding 2019-001: Significant Deficiency in Internal Controls – Accounting for Significant Nonroutine Transactions (cont.)

- Cause **–** There is not a formalized process to evaluate and document the accounting considerations for significant nonroutine transactions.
- Effect **–** The failure to appropriately evaluate and document accounting treatment for unique nonroutine transactions resulted in accounting errors and adjustments to the financial statements.
- Recommendation **–** Although management has evidenced thoughtful deliberations on such transactions, efforts should be made to properly document the evaluation of authoritative literature and the rationale of the accounting treatment adopted for nonroutine transactions. Additionally, consulting accounting literature, knowledgeable City staff, or external parties such as the GASB hotline is recommended to ensure proper treatment of unique transactions. Finally, documenting such research and consultations in memos that consider the issue, the accounting literature, the consulted party and the conclusion is recommended.
- View of Responsible Officials – The Controller's Office concurs with the auditor's finding and recommendation. The Controller's Office will put in place a process to document the analysis and consultations utilized in determining the appropriate accounting treatment for future unique nonroutine transactions.

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Appendix E – Matters Related to Internal Control over Financial Reporting (cont.)

SECTION II — DEFINITIONS

The definitions of a deficiency, a material weakness, and a significant deficiency are as follows:

A *deficiency* in internal control over financial reporting 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. A deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

A *material weakness* is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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