



CliftonLarsonAllen

CliftonLarsonAllen LLP  
CLAconnect.com

April 6, 2017

Members of the City Council  
City of Austin  
Austin, Minnesota

This Executive Audit Summary presents information which we believe is important to you as members of the city council. We encourage you to review the sections of this report, the audited financial statements and the auditors' reports.

We would be pleased to furnish additional information with respect to these suggestions and discuss this memorandum with you at your convenience. We wish to express our appreciation to the City for the courtesies, cooperation and assistance extended to us during the course of our work.

CliftonLarsonAllen LLP

Kimberley Hillberg, CPA  
Principal



**CITY OF AUSTIN  
AUSTIN, MINNESOTA  
EXECUTIVE AUDIT SUMMARY (EAS)  
DECEMBER 31, 2016**



**CITY OF AUSTIN  
AUSTIN, MINNESOTA  
TABLE OF CONTENTS  
DECEMBER 31, 2016**

<b>EXECUTIVE AUDIT SUMMARY</b>	<b>1</b>
<b>FORMAL REQUIRED COMMUNICATIONS</b>	<b>2</b>
<b>APPENDIX A</b>	
<b>FINANCIAL TRENDS OF YOUR CITY</b>	<b>6</b>
<b>APPENDIX B</b>	
<b>GASB STATEMENT NO. 74 AND 75</b>	<b>11</b>



**EXECUTIVE AUDIT SUMMARY (EAS) FOR  
CITY OF AUSTIN  
YEAR ENDED DECEMBER 31, 2016**

We prepared this Executive Audit Summary in conjunction with our audit of the City's financial records for the year ended December 31, 2016.

**Audit Opinion**

The financial statements are fairly stated. We issued what is known as a "clean" audit report (see page 1 in the Comprehensive Annual Financial Report).

**Internal Control Over Financial Reporting**

No internal control findings were noted.

**Internal Control and Compliance under the Uniform Guidance**

No internal control or compliance findings were noted.

**Minnesota Legal Compliance**

No Minnesota legal compliance findings were noted.

(This page intentionally left blank)

## FORMAL REQUIRED COMMUNICATIONS

Honorable Mayor and  
Members of the City Council  
City of Austin, Minnesota

We have audited the financial statements of the governmental activities, the business-type activities, each discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Austin (the City) for the year ended December 31, 2016, and have issued our report thereon dated April 6, 2017. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Findings**

#### ***Qualitative Aspects of Accounting Practices***

##### **Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements.

During 2016, the City implemented Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. Additional disclosures were added to the notes to the City's financial statements regarding fair value measurements related to the City's investments. However, the adoption of GASB No. 72 had no impact on net position/fund balance.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

##### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the allowance for uncollectible receivables is based on an analysis of the collectability of amounts due, taking into account delinquencies and payment histories. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Honorable Mayor and  
Members of the City Council  
Austin, Minnesota

- Management's estimate of depreciation rates sufficient to fully depreciate the related capital assets over their useful lives is based on past experiences. We evaluated the key factors and assumptions used to develop the depreciation rates in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the liability IBNR is based on projected claims for the following year and an analysis of historical claim levels. We evaluated the key factors and assumptions used to develop the IBNR liability in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of other postemployment benefits payable is based on an actuarially determined calculation, less actual payments incurred on behalf of retirees and an actuarially determined estimate of implicit rate subsidy, which is the estimated increased cost of premiums due to inclusion of retirees in the same plan as the City's active employees.
- Management's estimate of the City's proportionate share of PERA's GERS and PEPFF net pension liability is based on guidance from GASB Statement No. 68 and each plan's respective allocation tables. Each plan's allocation tables allocate a portion of the plan's net pension liability based on the City's contributions from July 1, 2015 through June 30, 2016 as a percentage of the total contributions received for the related period of time by the plan.

We reviewed and tested management's procedures and underlying supporting documentation in the areas discussed above and evaluated the key factors and assumptions used to develop the estimates noted above in determining that they are reasonable in relation to the financial statements taken as a whole. We concluded that the accounting estimates and management judgments appeared to consider all significant factors and resulted in appropriate accounting recognition.

#### Financial Statement Disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

The financial statement disclosures are neutral, consistent, and clear.

#### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### **Uncorrected Misstatements**

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

#### **Corrected Misstatements**

Management did not identify and we did not notify them of any financial statement misstatements detected as a result of audit procedures.

Honorable Mayor and  
Members of the City Council  
Austin, Minnesota

***Disagreements with Management***

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated April 6, 2017.

***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Significant Issues Discussed with Management Prior to Engagement***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

***Audits of Group Financial Statements***

We noted no matters related to the group audit that we consider to be significant to the responsibilities of those charged with governance by the group.

***Other Information in Documents Containing Audited Financial Statements***

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

With respect to the schedule of expenditures of federal awards (SEFA) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the SEFA to determine that the SEFA complies with the requirements of the Uniform Guidance, the method of preparing it has not changed from the prior period or the reasons for such changes, and the SEFA is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the SEFA to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated April 6, 2017.

Honorable Mayor and  
Members of the City Council  
Austin, Minnesota

**Other Information in Documents Containing Audited Financial Statements (Continued)**

With respect to the combining and individual fund statements and schedules and supplementary information (collectively, the supplementary information) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period or the reasons for such changes, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated April 6, 2017.

The introductory section and statistical section accompanying the financial statements, which is the responsibility of management, was prepared for purposes of additional analysis and is not a required part of the financial statements. Such information was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we did not express an opinion or provide any assurance on it.

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

This communication is intended solely for the information and use of the Members of the Council and management of the City and is not intended to be and should not be used by anyone other than these specified parties.



**CliftonLarsonAllen LLP**

Austin, Minnesota  
April 6, 2017

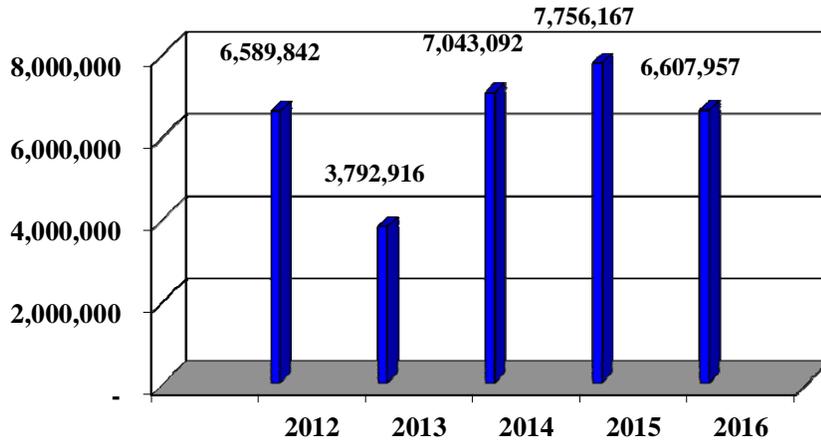
# **APPENDIX A**

## **FINANCIAL TRENDS OF YOUR CITY**

The following graphs reflect financial trends of City of Austin. Information related to fund balances, revenues and expenditures was obtained from current and prior year audit reports. The information for the 2015 graph on page 10, which shows state wide averages, was obtained from website of the Office of the State Auditor of Minnesota.

(This page intentionally left blank)

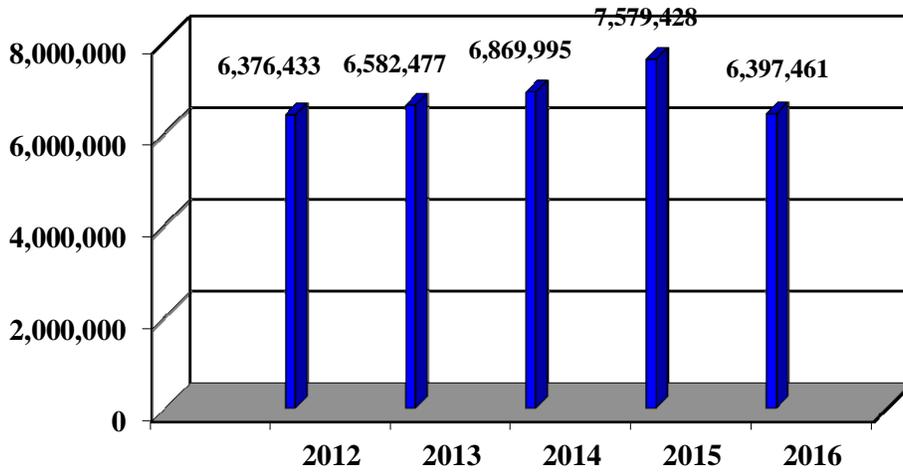
### CITY OF AUSTIN General Fund Total Fund Balance



© 2015 CliftonLarsonAllen LLP



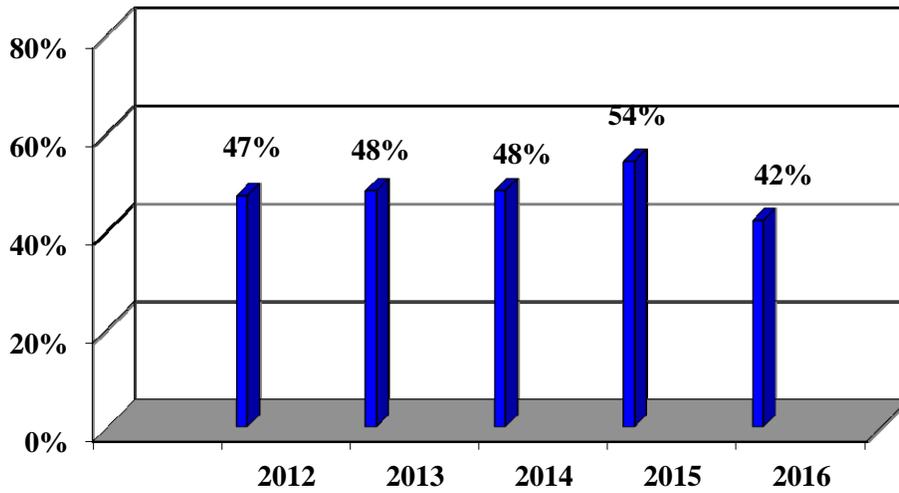
### CITY OF AUSTIN General Fund Assigned and Unassigned Fund Balance



© 2015 CliftonLarsonAllen LLP

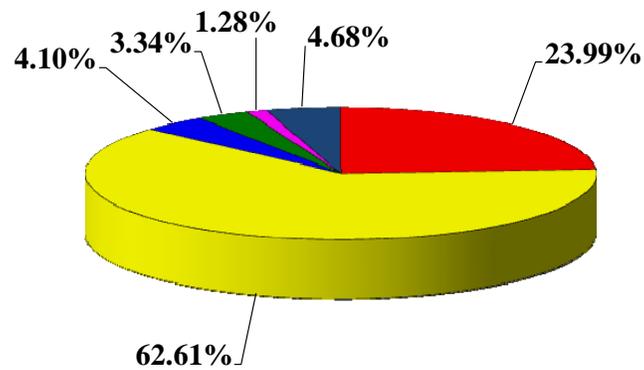


### CITY OF AUSTIN Percentage of General Fund Assigned and Unassigned Fund Balance to General Fund Expenditures



CliftonLarsonAllen

### CITY OF AUSTIN 2016 General Fund Revenues

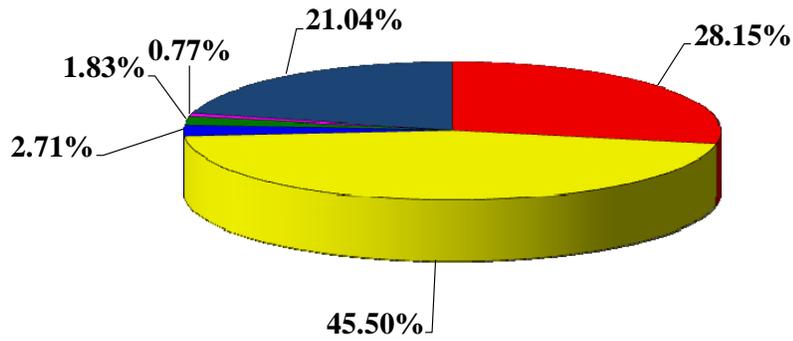


■ Taxes                      ■ Intergovernmental                      ■ Charges for Services  
■ Licenses & Permits                      ■ Fines & Forfeits                      ■ Other

CliftonLarsonAllen

**CITY OF AUSTIN**  
**2016 Total Governmental Fund Revenues**

© 2015 CliftonLarsonAllen, LLP

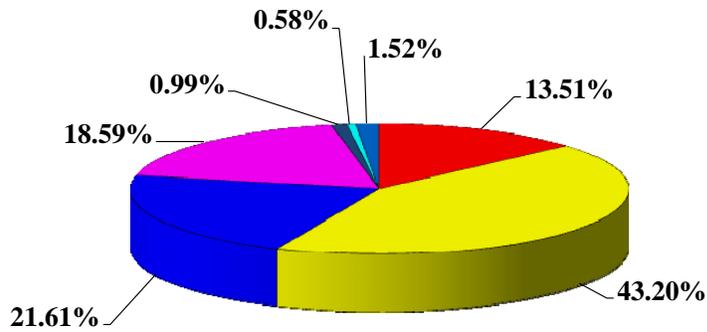


- Taxes
- Intergovernmental
- Charges for Services
- Licenses & Permits
- Fines & Forfeits
- Other



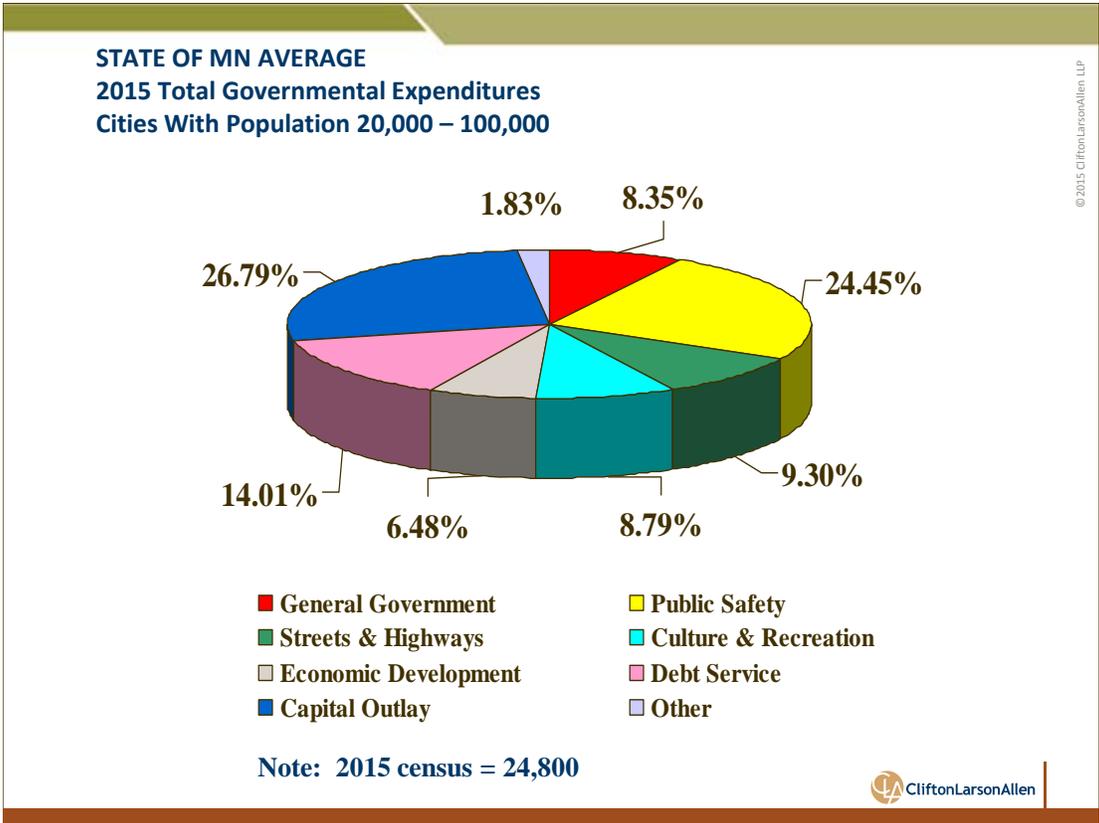
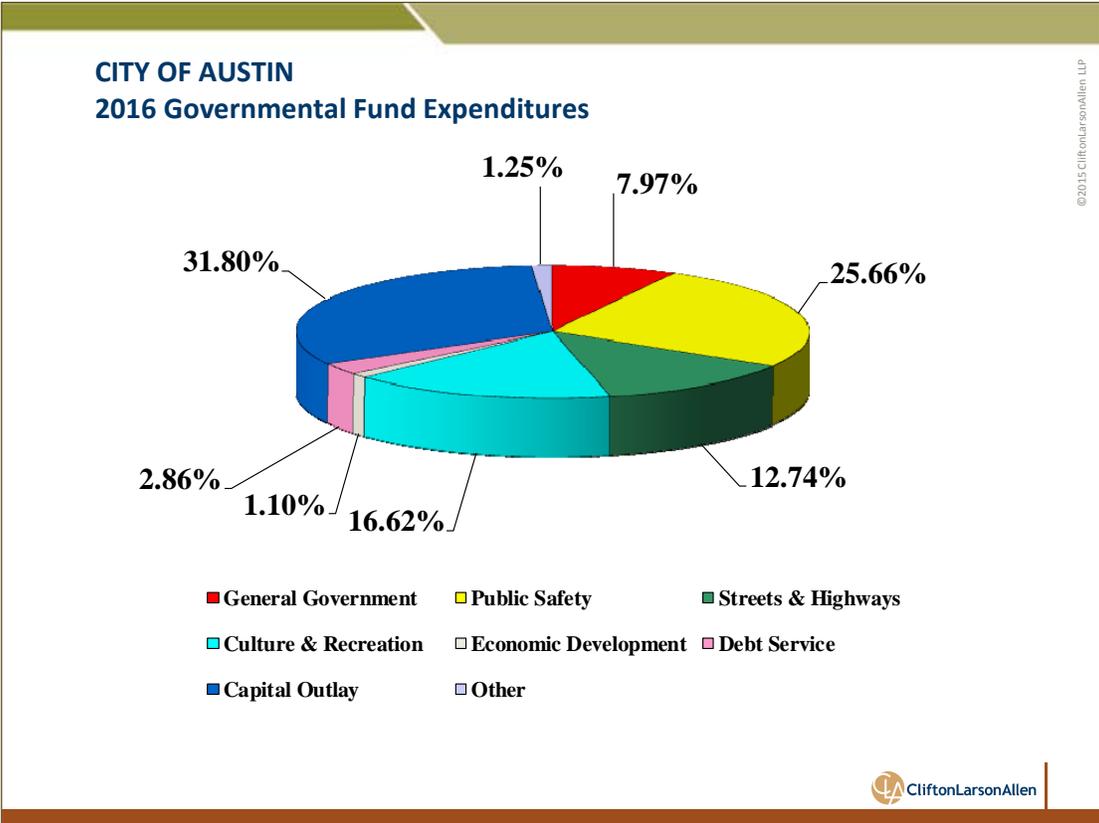
**CITY OF AUSTIN**  
**2016 General Fund Expenditures**

© 2015 CliftonLarsonAllen, LLP



- General Government
- Public Safety
- Streets & Highway
- Culture & Recreation
- Community Development
- Public Service
- Economic Development





# APPENDIX B

## GASB Statement No. 74 and 75

During June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*, and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans other than Pension Plans*, which establish new financial reporting requirements for governments that provide other postemployment benefits (OPEB).

The implementation of these Statements will represent a significant change in how the City will calculate and report annual cost and the related long-term OPEB liability. The implementation of these Statements will require:

- The net OPEB liability to be measured as the total OPEB liability, less the amount of the OPEB plan's fiduciary net position. For governments that provide OPEB through a defined benefit OPEB plan *not* administered through a trust meeting specified criteria, the liability reported in the financial statements would be the total OPEB liability.
- Projection of benefits payments be discounted to their present value using the long-term rate of return on OPEB assets, or a 20-year tax exempt, high-quality general obligation municipal bond yield.
- Use of a single actuarial cost allocation method ("entry age actuarial cost method").
- Expanded OPEB note disclosures.
- Expanded OPEB required supplementary information.

Given the significance of the net OPEB liability, the financial reporting impact under the new standard could significantly affect the City's financial statements.

It should be noted that the implementation of GASB Statement No.'s 74 and 75 are strictly financial reporting standards and do not constitute a governmental mandate regarding the funding of the net OPEB obligation.

The provisions in Statement 74 are effective for financial statements for fiscal years beginning after June 15, 2016. The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

