

Honorable Mayor, City Council Audit Committee
and City Manager
City of Richardson, Texas

Professional standards require that we communicate certain matters to keep you adequately informed about matters related to the financial statement audit that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. We communicate such matters in this report.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

Our responsibility is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. The audit of the financial statements does not relieve you of your responsibilities and does not relieve management of their responsibilities. Refer to our engagement letter with the City for further information on the responsibilities of management and of Crowe LLP.

AUDITOR'S RESPONSIBILITY UNDER GOVERNMENT AUDITING STANDARDS

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts or disclosures. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

PLANNED SCOPE AND TIMING OF THE AUDIT

We are to communicate an overview of the planned scope and timing of the audit.

- How we addressed the significant risks of material misstatement, whether due to fraud or error.
- Our approach to internal control relevant to the audit.
- The concept of materiality in planning and executing the audit, focusing on the factors considered rather than on specific thresholds or amounts.
- Where the entity has an internal audit function, the extent to which the auditor will use the work of internal audit, and how the external and internal auditors can best work together.
- Your views and knowledge of matters you consider warrant our attention during the audit, as well as your views on:
 - The allocation of responsibilities between you and management.
 - The entity's objectives and strategies, and the related business risks that may result in material misstatements.
 - Significant communications with regulators.
 - Other matters you believe are relevant to the audit of the financial statements

SIGNIFICANT ACCOUNTING POLICIES AND MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES

Significant Accounting Policies: Those Charged with Governance should be informed of the initial selection of and changes in significant accounting policies or their application. Also, Those Charged with Governance should be aware of methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas where there is a lack of authoritative consensus. We believe management has the primary responsibility to inform Those Charged with Governance about such matters. To assist with Those Charged with Governance in its oversight role, we also provide the following:

| Accounting Standard | Impact of Adoption |
|--|--|
| <p>GASB Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits other than Pensions.”</p> <p>The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.</p> | <p>Upon adoption of this Statement, the City must report the Total OPEB Liability (TOL), the OPEB expense and the related deferred inflows and outflows of resources associated with providing OPEB benefits to employees (and retirees) in the basic financial statements. In addition, extensive note disclosures and related RSI was prepared. The City recorded a beginning deferred outflow of resources for contributions made between the start of the measurement period for OPEB and the City’s prior fiscal year-end, as well as a liability for the beginning balance of the TOL. This resulted in an adjustment to beginning net position of the governmental activities and the business activities in the Government-Wide Financial Statements of Revenues, Expenses and Changes in the Fund Net Position.</p> |
| <p>GASB Statement No. 85, “Omnibus 2017.”</p> <p>This Statement was issued to address practice issues that have been identified during implementation and application of certain GASB Statements.</p> | <p>Adoption of this Statement did not have a material impact on the City’s financial position or results of operations.</p> |
| <p>GASB Statement No. 86, “Certain Debt Extinguishment Issues.”</p> <p>This Statement was issued to improve consistency in accounting for financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources (resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the sole purpose of extinguishing debt. The Statement also improves accounting and financial reporting for prepaid insurance of debt that is extinguished and notes to financial statements for debt that is defeased in substance.</p> | <p>Adoption of this Statement did not have a material impact on the City’s financial position or results of operations.</p> |

| Accounting Standard | Impact of Adoption |
|---|---|
| <p>GASB Statement No. 89, “Accounting for Interest Cost Incurred before the End of a Construction Period.”</p> <p>This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the costs is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.</p> | <p>Adoption of this Statement did not have a material impact on the City’s financial position or results of operations.</p> |

Management Judgments and Accounting Estimates: Further, accounting estimates are an integral part of the financial statements prepared by management and are based upon management’s current judgments. These judgments are based upon knowledge and experience about past and current events and assumptions about future events. Certain estimates are particularly sensitive because of their significance and because of the possibility that future events affecting them may differ markedly from management’s current judgments and may be subject to significant change in the near term.

The following describes the significant accounting estimates reflected in the City’s year-end financial statements, the process used by management in formulating these particularly sensitive accounting estimates and the primary basis for our conclusions regarding the reasonableness of those estimates.

| Significant Accounting Estimate | Process Used by Management | Basis for Our Conclusions |
|---|--|--|
| <p>Allowance for Doubtful Accounts and Bad Debt Expense</p> | <p>The allowance for doubtful accounts was determined by management by a process involving consideration of past experiences, current aging information, and other available data.</p> | <p>We tested this accounting estimate by reviewing, on a test basis, the information.</p> |
| <p>Useful Lives of Capital Assets</p> | <p>Management has determined the economic useful lives of capital assets based on past history of similar types of assets, future plans as to their use, and other factors that impact their economic value to the City.</p> | <p>We tested the propriety of information underlying management’s estimates.</p> |
| <p>Fair Values of Investment Securities and Other Financial Instruments</p> | <p>The disclosure of fair values of securities and other financial instruments requires management to use certain assumptions and estimates pertaining to the fair values of its financial assets and financial liabilities.</p> | <p>We tested the propriety of information underlying management’s estimates. In addition, we compared the amounts reported to a separate pricing analysis.</p> |

| Significant Accounting Estimate | Process Used by Management | Basis for Our Conclusions |
|--|--|--|
| Pension | Amounts reported for pension require management to use estimates that may be subject to significant change in the near term. These estimates are based on projection of the weighted average discount rate, rate of increase in future compensation levels, and weighted average expected long-term rate of return on pension assets. | We reviewed the reasonableness of these estimates and assumptions. We tested certain assumptions of the third party actuary, examined SOC-1 report provided to us by TMRS on the controls at TMRS, and performed certain tests on census data used by the actuary in the calculations. |
| Other Postretirement Benefit Obligations | Amounts reported for postretirement obligations benefit require management to use estimates that may be subject to significant change in the near term. These estimates are based on projection of the weighted average discount rate, rate of increase in future compensation levels, rates of retirement and participation and healthcare trend inflation rates. | We reviewed the reasonableness of these estimates and assumptions. We tested certain assumptions of the third party actuary, and performed certain tests on census data used by the actuary in the calculations. |

AUDITOR’S JUDGMENTS ABOUT QUALITATIVE ASPECTS OF SIGNIFICANT ACCOUNTING PRACTICES

We are to discuss with you our comments about the following matters related to the City’s accounting policies and financial statement disclosures. Accordingly, these matters will be discussed during our meeting with you.

- The appropriateness of the accounting policies to the particular circumstances of the entity, considering the need to balance the cost of providing information with the likely benefit to users of the entity's financial statements.
- The overall neutrality, consistency, and clarity of the disclosures in the financial statements.
- The effect of the timing of transactions in relation to the period in which they are recorded.
- The potential effect on the financial statements of significant risks and exposures, and uncertainties that are disclosed in the financial statements.
- The extent to which the financial statements are affected by unusual transactions including nonrecurring amounts recognized during the period, and the extent to which such transactions are separately disclosed in the financial statements.
- The issues involved, and related judgments made, in formulating particularly sensitive financial statement disclosures.
- The factors affecting asset and liability carrying values, including the entity's basis for determining useful lives assigned to tangible and intangible assets.
- The selective correction of misstatements, for example, correcting misstatements with the effect of increasing reported earnings, but not those that have the effect of decreasing reported earnings.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Corrected Misstatements: We are to inform you of material corrected misstatements that were brought to the attention of management as a result of our audit procedures. There were no such corrected material misstatements.

Uncorrected Misstatements: We are to inform you of uncorrected misstatements that were aggregated by us during the current engagement and pertaining to the latest and prior period(s) presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. There were no such uncorrected misstatements.

OTHER COMMUNICATIONS

| Communication Item | Results |
|---|--|
| <p>Other Information In Documents Containing Audited Financial Statements</p> <p>Information may be prepared by management that accompanies the financial statements. To assist your consideration of this information, you should know that we are required by audit standards to read such information and consider whether such information, or the manner of its presentation, is materially inconsistent with information in the financial statements. If we consider the information materially inconsistent based on this reading, we are to seek a resolution of the matter.</p> | <p>We read the following items and noted no material inconsistencies or misstatement of facts in such information based on our reading thereof.</p> <ul style="list-style-type: none"> • Transmittal Letter • Management’s Discussion and Analysis • Required Supplementary Information • Combining Statements • Statistical Data |
| <p>Significant Difficulties Encountered During the Audit</p> <p>We are to inform you of any significant difficulties encountered in dealing with management related to the performance of the audit.</p> | <p>There were no significant difficulties encountered in dealing with management related to the performance of the audit.</p> |
| <p>Disagreements With Management</p> <p>We are to discuss with you any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the City’s financial statements or the auditor’s report.</p> | <p>During our audit, there were no such disagreements with management.</p> |
| <p>Consultations With Other Accountants</p> <p>If management consulted with other accountants about auditing and accounting matters, we are to inform you of such consultation, if we are aware of it, and provide our views on the significant matters that were the subject of such consultation.</p> | <p>We are not aware of any instances where management consulted with other accountants about auditing or accounting matters since no other accountants contacted us, which they are required to do by Statement on Auditing Standards No. 50, before they provide written or oral advice.</p> |
| <p>Representations The Auditor Is Requesting From Management</p> <p>We are to provide you with a copy of management’s requested written representations to us.</p> | <p>We direct your attention to a copy of the letter of management’s representation to us provided separately.</p> |

| Communication Item | Results |
|--|--|
| <p>Significant Issues Discussed, or Subject to Correspondence, With Management</p> <p>We are to communicate to you any significant issues that were discussed or were the subject of correspondence with management.</p> | <p>There were no such significant issues discussed, or subject to correspondence, with management.</p> |
| <p>Significant Related Party Findings and Issues</p> <p>We are to communicate to you significant findings and issues arising during the audit in connection with the City's related parties.</p> | <p>There were no such findings or issues that are, in our judgment, significant and relevant to you regarding your oversight of the financial reporting process.</p> |
| <p>Other Findings or Issues We Find Relevant or Significant</p> <p>We are to communicate to you other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to you regarding your oversight of the financial reporting process.</p> | <p>There were no such other findings or issues that are, in our judgment, significant and relevant to you regarding your oversight of the financial reporting process.</p> |

We are pleased to serve your City as its independent auditors and look forward to our continued relationship. We provide the above information to assist you in performing your oversight responsibilities, and would be pleased to discuss this letter or any matters further, should you desire. This letter is intended solely for the information and use of the City of Richardson and, if appropriate, management, and is not intended to be and should not be used by anyone other than these specified parties.



Crowe LLP

Dallas, Texas
February 8, 2019