



Audit Results

City of Tacoma
Government Performance and Finance Committee Presentation

June 5, 2018

May 18, 2018

To the Members of the Government Performance Finance Committee
Tacoma Public Utilities - Power, Water, and Rail Divisions
Environmental Services – Sewer (Surface water/Wastewater) and Solid Waste Divisions

Dear Committee Members:

Thank you again for your engagement of Moss Adams LLP. We are pleased to present to you the results of our audits of the Funds' financial statements for the year ended December 31, 2017.



The accompanying report, intended solely for the use of the Committee and management, presents important information regarding the Funds' financial statements that we believe will be of interest to you.

2

We conducted our audits with the objectivity and independence you expect. We received the full support and assistance from the Funds' personnel. We are pleased to serve and be associated with the Funds, and we look forward to our continued relationship.

Olga A. Darlington
Moss Adams LLP

Auditor's Report on the Financial Statements

Unmodified Opinions

- Financial statements are presented fairly and in accordance with US GAAP – following pronouncements promulgated by the Governmental Accounting Standards Board (GASB)
- Tacoma Public Utilities - Power, Water, and Rail Divisions – reports issued April 18 and 20, 2018
- Environmental Services – Sewer (Surface water/Wastewater) and Solid Waste Divisions – reports issued April 30, 2018

Audit and report on internal control and compliance over financial reporting in accordance with *Government Auditing Standards*

- No material weaknesses in internal control



3

Our Responsibility Under Auditing Standards

1

To express our opinion on whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, and conform to US GAAP. However, our audit does not relieve you or management of your responsibilities.

2

To perform an audit in accordance with generally accepted auditing standards issued by the AICPA and Government Auditing Standards issued by the Comptroller General of the United States and **design the audit to obtain reasonable, rather than absolute, assurance** about whether the financial statements are free of material misstatement.

3

To consider internal control over financial reporting as a basis for designing audit procedures but not for the purpose of expressing an opinion on its effectiveness or to provide assurance concerning such internal control.

4

To communicate findings that, in our judgment, are relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.



4

Area of Audit Emphasis

Internal Control Environment

- Cash receipts/revenues, cash disbursements/payables, payroll, power trading, treasury, financial close and reporting;
- General computer controls, IT environment

Treasury

- Coordination with SAO testing of cash and investment balances for existence, valuation, restrictions; evaluation of fair value

Management Estimates

- Allowance for doubtful accounts
- Unbilled revenues
- Depreciable lives and estimated residual value of plant
- Accrued liability for injuries and damages
- Actuarial valuations for pension and OPEB amounts
- Environmental liabilities and landfill post-closure monitoring



5

Area of Audit Emphasis, continued

Capital Assets

- Consideration of capitalization policies, as well as testing of additions, retirements, overhead application, capitalized interest, depreciation

Net Pension Liability

- Recognition of share of the liability for employees' future pension obligations as part of the Tacoma Employees Retirement System (TERS);
- Employer liability and related deferred inflows/outflows including selections of new hires from the census and contributions made by the Utilities to TERS

Debt Activity

- New debt issued and defeased; debt repayments, arbitrage liability, capitalized interest, discounts and premiums, compliance with covenants



6

Required Audit Communications

Planned Scope and Timing of Audit

- The planned scope and timing of the audit was communicated through our presentation to the GPFC on December 6, 2017, and was included in the engagement letter dated October 31, 2017.

Significant Accounting Policies

- See notes to the financial statements

Accounting Estimates

- Note 2 discloses the Fund's significant accounting policies:
 - Allowance for doubtful accounts
 - Unbilled revenues
 - Depreciable lives and estimated residual value of plant
 - Actuarial valuations for pension and OPEB amounts
 - Environmental liabilities and landfill post-closure monitoring



7

Required Audit Communications, continued

Consultation with Other Accountants

- None noted

Disagreements with Management

- No disagreements or difficulties in performing the audit

Potential Effect of Any Significant Risks and Exposures

- The Funds are subject to potential legal proceedings and claims that arise in the ordinary course of business.



8

Audit Adjustments and Passed Audit Adjustments

Audit Adjustments

- None

Passed Audit Adjustments

- Three passed audit adjustments:
 - Sewer Fund – to increase the Thea Foss Waterway liability to record monitoring costs more representative of the monitoring plan for the next 10 years in the amount of \$600,000;
 - Solid Waste Fund – to reduce unbilled customer AR due to lower than anticipated billings made after year end in the amount of \$226,138;
 - Water Fund – to reduce beginning net position and record accumulated depreciation in the amount of \$1,208,381 for uncapitalized IDC assets from 2014 – 2016 and unrecognized depreciation.



9

TR1

New Accounting Standards

GASB 75 - OPEB

- Addresses accounting and financial reporting issues related to other postemployment benefit plans.
- Effective for 2018 financial statements

GASB 83 – Asset Retirement Obligations

- Addresses accounting and financial reporting for certain asset retirement obligations.
- Effective for 2019 financial statements

GASB 87 - Leases

- Addresses accounting and financial reporting for leases recognizing that leases are financings of the right to use an underlying asset.
- Effective for 2020 financial statements



10

Slide 10

TR1 Do we need to include GASB 84 (Fiduciary Activities), 85 (Omnibus), or 86 (Debt Extinguishments)?

Todd Ryland, 3/26/2018

Acknowledgements

Thank you!

- The audit progressed on time and in an orderly fashion; requested schedules and draft financial statements were received on a timely basis.
- All City personnel across all departments were courteous, responsive, and fulfilled all of our requests in a timely manner.
- 'Tone at the Top' and attitude from management was one of helpfulness and openness in response to audit requests and discussion points.



11



THANK
YOU



12

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