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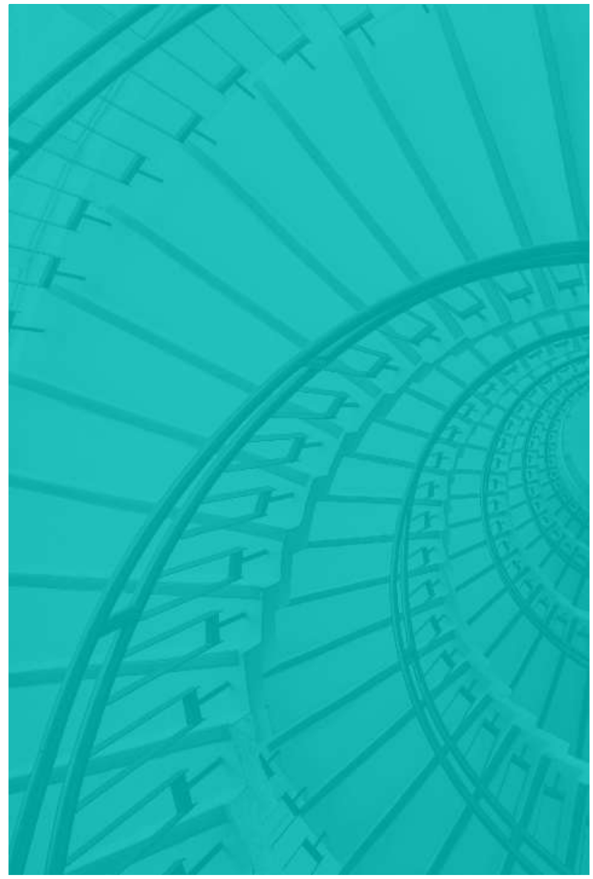

City of Tacoma Government Performance and Finance Committee and Audit Advisory Board

2025 Audit Results

Agenda

1. Scope of Services
2. Auditor Reports Issued
3. Areas of Audit Emphasis
4. Matters Required to be Communicated with Those Charged with Governance
5. Upcoming New Accounting Standards
6. Your Service Team

Scope of Services

We have performed the following services for the City of Tacoma:

Annual Audit

Annual financial statement audit for the year ended December 31, 2025:

Tacoma Public Utilities –
- Power, Water and Rail Divisions

Environmental Services –
- Wastewater/Stormwater and Solid Waste Management Divisions

Annual reports on internal control in accordance with *Governmental Auditing Standards*

Limited Procedures on RSI

- Management's discussion and analysis
- Proportionate Share of the Net Pension Liability
- Proportionate Share of Contributions
- Proportionate Share of the Collective OPEB Liability

Agreed Upon Procedures

- Report to the Environmental Protection Agency relating to Thea Foss and Wheeler-Osgood Problem Areas RD/RA Consent Decree

Auditor Reports Issued

Unmodified opinions on the financial statements of each of the Tacoma Public Utilities' Divisions – Power, Water and Rail; Environmental Services department Divisions – Wastewater/Stormwater and Solid Waste Management, which are presented fairly and in accordance with US GAAP

Auditors' reports on Internal Control Over Financial Reporting and on Compliance and Other Matters
- No compliance findings noted
- No internal control findings

Report on Agreed Upon Procedures for Environmental Protection Agency relating to Thea Foss and Wheeler-Osgood Problem Areas RD/RA Consent Decree

Significant Risks Identified

During the planning of the audit we have identified the following significant audit risks:

Significant Risks	Procedures
Capital Assets	The amount of capital assets has historically been significant. We tested the Divisions' additions and disposals during the year and assessed internal controls over project monitoring.
Management override of controls	Evaluated internal control structure, tested estimates for management bias, tested of adjusting journal entries

Areas of Audit Emphasis

- **Internal control environment**
  - Capital assets/project management, billing and cash receipts/receivables, cash disbursements/payables, payroll, bond, general computer controls over IT systems and ERP system implementation/transition
- **Management estimates**
  - Allowance for doubtful accounts, unbilled revenues, depreciation lives of capital assets, lease receivables, environmental liabilities, contingency and legal reserves, compensated absences, pension and other post employment benefits
- **Capital assets**
  - Evaluation of capitalization policies and potential impairment, testing of construction in progress additions, asset retirements and depreciation; consideration of timely closing of capital projects to depreciable capital assets
- **Treasury**
  - Coordination with State Auditor's Office testing of City's cash and investment balances for existence, valuation, classification; evaluation of fair value;
- **Net position classification**
  - Invested in Capital Assets;
  - Restricted;
  - Unrestricted;

Areas of Audit Emphasis (continued)

- **Debt activity**
  - Debt repayments, arbitrage liability, discounts and premiums, compliance with covenants; third party confirmations with financial institutions;
  - New debt issuance in Power during 2025
  - Consideration of refunding transactions
- **Revenue & Expenses**
  - Vouching of cash receipts and timing of revenue recognition;
  - Third-party confirmations with largest commercial power purchasers;
  - Analytical testing of revenue and expenses;

Matters Required to be Communicated with Those Charged with Governance

Our responsibility with regard to the financial statement audit under U.S. auditing standards:

We are responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management, with your oversight, are prepared, in all material respects, in accordance with accounting principles generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States (*Government Auditing Standards*). Our audit of the financial statements does not relieve you or management of your responsibilities.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS) and *Government Auditing Standards*. As part of an audit conducted in accordance with U.S. GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit.

Matters Required to be Communicated with Those Charged with Governance

Our responsibility with regard to the financial statement audit under U.S. auditing standards:

Our audit of the financial statements included obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control or to identify deficiencies in the design or operation of internal control. Accordingly, we considered the Division's internal control solely for the purpose of determining our audit procedures and not to provide assurance concerning such internal control.

We are also responsible for communicating significant matters related to the financial statement audit that are, in our professional judgment, 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.

Matters Required to be Communicated with Those Charged with Governance

Other Information Included in the Annual Report:

Management is responsible for the other information included in the *Divisions Annual Report*. The other information comprises the supplemental information comprised of the Divisions: Statistical Data and Graphs, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon. Our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the audited financial statements. We have read the information, and nothing came to our attention that caused us to believe that such information is materially inconsistent with the financial statements.

Matters Required to be Communicated with Those Charged with Governance

Significant Accounting Practices: Our views about qualitative aspects of the entity's significant accounting practices, including accounting policies, accounting estimates, and financial statement disclosures	The Divisions adopted Governmental Accounting Standards Board (GASB) Statement 102, *Certain Risk Disclosures*, for the year ended December 31, 2025 without material impact. There were no other changes to significant accounting policies in the current year.
Significant Unusual Transactions:	No significant unusual transactions were identified during our audit of the Divisions' financial statements.

Matters Required to be Communicated with Those Charged with Governance

Significant Difficulties Encountered During the Audit: We are to inform those charged with governance of any significant difficulties encountered in performing the audit.	No significant difficulties were encountered during our audit of the Divisions' financial statements
Disagreements with Management: Disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the entity's financial statements, or the auditor's report.	There were no disagreements with management.

Matters Required to be Communicated with Those Charged with Governance

Other findings or issues arising from the audit that are, in the auditor's professional judgment, significant and relevant to those charged with governance regarding their oversight of the financial reporting process:	There were no other findings or issues arising from the audit to report.
Circumstances that affect the form and content of the auditor's report:	There were no circumstances that affected the form and content of the auditor's report.

Matters Required to be Communicated with Those Charged with Governance

Material, Corrected Misstatements: Material, corrected misstatements that were identified during the audit process.	No material misstatements were identified as a result of our audit other than those that remain uncorrected as previously discussed

Matters Required to be Communicated with Those Charged with Governance

Uncorrected Misstatements:

Uncorrected misstatements, or matters underlying those uncorrected misstatements, as of and for the year ended December 31, 2025 could potentially cause future-period financial statements to be materially misstated, even though we have concluded that the uncorrected misstatements are immaterial to the financial statements, including disclosures, under audit.

Judgmental Misstatements – To adjust GASB 101 Compensated Absences short term accrual based on estimated usage:

- Power Division - $9,300,000
- Rail Division - $900,000
- Water Division - $2,100,000
- Sewer Division - $2,200,000
- Solid Waste Division - $1,500,000

Upcoming New Accounting Standards

- ❖ GASB 103, *Financial Reporting Model Improvements* – effective for fiscal year 2026
- ❖ GASB 104, *Disclosure of Certain Capital Assets* – effective for fiscal year 2026
- ❖ GASB 105, *Subsequent Events* – effective for fiscal year 2027

Your Service Team

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Acknowledgements

Thank you!

The audit progressed on time and in an orderly fashion; our teams were working collaboratively on issues as they came up during the audit.

Weekly meetings were held between Baker Tilly, City management and each Divisions' and staff throughout the audit term.

All City personnel across all departments were courteous, responsive, and fulfilled our requests in a timely manner.

THANK YOU