



Audit Results Presentation

City of Tacoma

Government Performance and Finance Committee and Audit
Advisory Board

June 18, 2019

To the Members of the
Government Performance
Finance Committee and Audit
Advisory Board

- Tacoma Public Utilities -
Power, Water, and Rail
Division
- Environmental Services –
Sewer (Surface
water/Wastewater) and
Solid Waste Divisions

Thank you for your engagement of Moss Adams LLP. We are pleased to have the opportunity to meet with you to discuss the results of our audit of the financial statements of the Funds' as of and for the year ended December 31, 2018.

The accompanying presentation, which is intended solely for the use of the Committee and Management, and not intended to be and should not be used by anyone other than these specified parties, presents important information regarding the Funds' financial statements and our audit that we believe will be of interest to you.

We conducted our audit with the objectivity and independence that you expect. We received the full support and assistance of Funds' personnel. We are pleased to serve and be associated with the Funds as its independent public accountants and look forward to our continued relationship.

Olga A. Darlington
Moss Adams LLP



Auditor's Report on the Financial Statements

Unmodified(Clean) Opinions on financial statements, which are presented fairly and in accordance with US GAAP – following pronouncements promulgated by GASB

- Tacoma Public Utilities – Power, Water, and Rail Divisions – reports issued May 28, 2019
- Environmental Services – Wastewater/Surface Water Management and Solid Waste Divisions – reports issued May 22, 2019

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

- No material weaknesses in internal control



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Area of Audit Emphasis

Internal Control Environment

- Cash receipts/revenues, cash disbursements/payables, payroll, power trading, treasury, financial close and reporting;
- Our IT specialists tested the IT applications and IT general computer controls that support the various financial reporting systems;

Treasury

- Coordination with State Auditor's Office testing of cash and investment balances for existence, valuation, restrictions and classification; evaluation of fair value;

Capital Assets

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



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Area of Audit Emphasis, continued

Debt Activity

- New debt issued and defeased; debt repayments, arbitrage liability, capitalized interest, discounts and premiums, compliance with covenants; third party confirmations with financial institutions;

Net Pension and OPEB Liability

- Recognition of share of the liability for employees' future pension and OPEB obligations as part of TERS plans;
- Employer liability and related deferred inflows/outflows including employee census and contributions made to TERS;
- Implementation of GASB 75 for OPEB reporting resulted in restatement of 2017 results for all funds, as disclosed in notes;

Revenues and Expenses

- Vouching of cash receipts and timing of revenue recognition;
- Third-party confirmations with largest commercial power purchasers;
- Analytical testing of revenue and expenses;



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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.



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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 11, 2018, and was included in the engagement letter dated October 29, 2018;
- Our audit was performed according to the planned scope;

Significant Accounting Policies

- See notes to the financial statements - there were no changes to significant accounting policies for the year ended December 31, 2018
- Implementation of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB), resulted in restatement of December 31, 2017 results;

Accounting Estimates

- Note 2 discloses the Funds' 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



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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.



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Audit Adjustments and Passed Audit Adjustments

Audit Adjustments

- None

Passed Audit Adjustments

- Five passed audit adjustments:
 - Power Fund – to accrue approximately \$1,996,000 of invoices that should have been accrued at the end of 2018.
 - Wastewater/Surface Water, Solid Waste, and Water Funds – to account for the likely variance in estimated unbilled revenue resulting from invoicing/re-invoicing issues that occurred during the first part of January (impacting ~ 26,000 customers). This decreased each of the receivables and revenue by the following balances: Wastewater/Surface Water - \$907,000, Solid Waste - \$486,000, and Water - \$479,000.
 - Rail Fund – to increase the unrestricted net position in prior year due to an error from previously produced GASB 10 Incurred But Not Reported (IBNR) adjustment report. The adjustment increased the expense in the current year by \$987,967.



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New Accounting Standards

GASB 83 – Asset Retirement Obligations

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

GASB 84 – Fiduciary Activities

- Addresses guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported;
- 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;



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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 Moss Adams and Funds' management and staff throughout the audit term.
- All City personnel across all departments were courteous, responsive, and fulfilled all of our requests in a timely manner.



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**THANK
YOU**



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