



Communications with Those Charged with
Governance and Internal Control Related Matters

Truckee Donner Public Utility District

December 31, 2022



MOSSADAMS

Communications with Those Charged with Governance

The Board of Directors
Truckee Donner Public Utility District

We have audited the consolidated financial statements of Truckee Donner Public Utility District (the District) as of and for the year ended December 31, 2022, and have issued our reports thereon dated May 30, 2023. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated September 13, 2022, we are responsible for forming and expressing an opinion about whether the consolidated 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. Our audit of the consolidated 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) As part of an audit conducted in accordance with U.S. GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit.

An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we considered the District's internal control solely for the purposes 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 consolidated financial statement audit that, in our professional 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.

The supplementary information was subject to certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves.

Other Information Included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated 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 consolidated 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 consolidated financial statements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated September 13, 2022.

Significant Audit Findings and Issues

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the consolidated financial statements. During the year ended December 31, 2022, the District adopted the following accounting standards:

GASB Statement No. 87, *Leases*, addresses accounting and financial reporting for leases by governments. This Statement increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases by establishing a single model of lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about leasing activities. This statement is effective for the District fiscal year ending December 31, 2022. The District has implemented this statement. See Notes 4 and 16 for the impact on the financial statements.

GASB Statement No.91, "Conduit Debt Obligations." The objective of this statement is to better meet the information needs of the financial statement users by enhancing the comparability and consistency of the conduit debt obligation reporting and reporting of related transactions and other events by state and local government issuers. This Statement also is intended to improve the relevance, reliability, and understandability of information about conduit debt obligations, as well as related transactions and events. The requirements of this Statement will take effect for financial statements with the fiscal year that ends on or after December 31, 2022. The District has determined that this pronouncement has no changes in financial reporting of the District.

GASB Statement No.92, "Omnibus 2020." The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this Statement will take effect for financial statements with the fiscal year that ends on or after June 30, 2022. The District has determined that this pronouncement has no changes in financial reporting of the District.

GASB Statement No.93, "Replacement of Interbank Offered Rates." The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 30, 2022. The District has determined that this pronouncement has no changes in financial reporting of the District.

No other new accounting policies were adopted and there were no other changes in the application of existing policies during 2022. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the consolidated financial statements in a different period than when the transaction occurred.

Significant Accounting Estimates

Accounting estimates are an integral part of the consolidated 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 consolidated financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the consolidated financial statements were:

Unbilled revenue – Unbilled revenue is a measure of revenue earned through the end of the reporting period that has yet to be billed. This generally represents accounts with billing cycles that start in the reporting year and end in the subsequent year. We have evaluated the key factors and assumptions used to develop unbilled revenue in determining that it is reasonable in relation to the consolidated financial statements taken as a whole.

Allowance for doubtful accounts – The allowance for doubtful accounts represents an estimate of the amount of accounts receivable that will not be collected. We have evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the consolidated financial statements taken as a whole.

Recovery periods for the cost of plant – This represents the depreciation of plant assets. Management's estimate of the recovery periods for the cost of plant is based on regulatory-prescribed depreciation recovery periods. We have evaluated the key factors and assumptions used to develop the recovery periods in determining that they are reasonable in relation to the consolidated financial statements taken as a whole.

Other Post-Employment Benefit Obligations – This represents the amount of annual expenses recognized for post-employment benefits. The amount is actuarially determined with management input. We have evaluated the key factors and assumptions used to develop the annual expenses in determining that it is reasonable in relation to the consolidated financial statements taken as a whole.

Pension Liability and Related Pension Expense – This represents the amount of annual expense recognized for pensions and the related pension asset or liability. The amount is actuarially determined, with CalPERS management input. We have evaluated the key factors and assumptions used to develop the annual expense in determining that it is reasonable in relation to the consolidated financial statements taken as a whole.

Valuation of investments – This represents management’s estimate of the fair value of investments based on current market rates and conditions. We evaluated the key factors and assumptions used to develop the valuation of investments and determined that they are reasonable in relation to the consolidated financial statements taken as a whole.

Financial Statement Disclosures

The disclosures in the consolidated financial statements are consistent, clear and understandable. Certain financial statement disclosures may be particularly sensitive because of their significance to financial statement users.

We did not note any disclosures in the consolidated financial statements which we consider sensitive to potential users.

Significant Unusual Transactions

We encountered no significant unusual transactions during our audit of the District’s consolidated financial statements.

Significant Difficulties Encountered in Performing the Audit

Professional standards require us to inform you of any significant difficulties encountered in performing the audit. No significant difficulties were encountered during our audit of the District’s consolidated financial statements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the consolidated financial statements or the auditor’s report. No such disagreements arose during the course of our audit.

Circumstances that Affect the Form and Content of the Auditor’s Report

There may be circumstances in which we would consider it necessary to include additional information in the auditor’s report in accordance with auditing standards generally accepted in the United States of America. There were no circumstances that affected the form and content of the auditor’s report.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all factual and judgmental misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The misstatement detected as a result of audit procedures and corrected by management was not material to the financial statements as a whole. The corrected misstatements were as follows:

1. To reclassify work orders to plant assets in service that were in commercial operation at December 31, 2022 (Electric) – \$901,569
2. To reclassify work orders to plant assets in service that were in commercial operation at December 31, 2022 (Water) – \$3,510,579

We identified no passed audit adjustment during the course of our audit procedures.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 30, 2022.

Management Consultation 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 District’s consolidated financial statements or a determination of the type of auditor’s 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.

Other Significant Audit Findings or Issues

We are required to communicate to you other findings or issues arising from the audit that are, in our professional judgment, significant and relevant to your oversight of the financial reporting process. There were no such items identified.

Communication of Internal Control Related Matters

In planning and performing our audit of the consolidated financial statements of the District as of and for the year ended December 31, 2022 in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Our audit was also not designed to identify deficiencies in internal control that might be significant deficiencies. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the District's internal control to be significant deficiencies:

Monitoring Open Work Orders

During our testing of open work orders at December 31, 2022, we noted certain work orders totaling approximately \$4.4 million that were in commercial operation at year end, but were improperly recorded as construction work in progress. This resulted in a reclassification adjustment at year end as described previously in this letter. We recommend that management continue to establish a policy for when work orders should be closed after the construction work is completed (generally 60-90 days) or expensed if the project costs after closing are insignificant to the work order.

User Access Review

Through our review of the IT systems and related controls, we noted that no formal review of user access is currently completed and formally documented. As a best practice, we recommend that a periodic review of user access take place at least annually, and that such review be documented to note, at a minimum, when the review was performed, which reports were reviewed, who was involved in the review, and what conclusions were reached.

Additionally, we noted that user access is set up by the accounting department with no additional review or support. As a best practice, we recommend that new user set up, and user terminations, are controlled and completed by the IT department, with the review completed by the appropriate business users to mitigate the risk in appropriate access, unauthorized changes in access and segregation of duties.

Other Control Related Matters

During the course of our audit, we became aware of matters that are opportunities for improving reporting in compliance with generally accepted accounting principles, and strengthening internal controls and operating effectiveness, which are summarized below:

Review of SOC 1 Reports

Through our review of the IT systems and related controls, we noted that a formal review of SOC 1 reports for key systems is not being performed. As a best practice, we recommend that an annual review of SOC 1 reports is performed, and that such review be documented to note, at a minimum, when the review was performed, who was involved in the review, and what conclusions were reached.

Census Data Management

Through our testing of census information as it relates to the Other Post Employment Benefits (OPEB) plan, we noted one employee had incorrect personal information included in the census that is submitted to the actuary. We noted that the census is manually created, and therefore, we recommend that management work with NISC to provide a system generated report that contains all employees' applicable information to be submitted to the actuary to mitigate the risk of manual information being incorrect.

This information is intended solely for the use of the Board of Directors and management of the District and is not intended to be and should not be used by anyone other than these specified parties.



Portland, Oregon
May 30, 2023