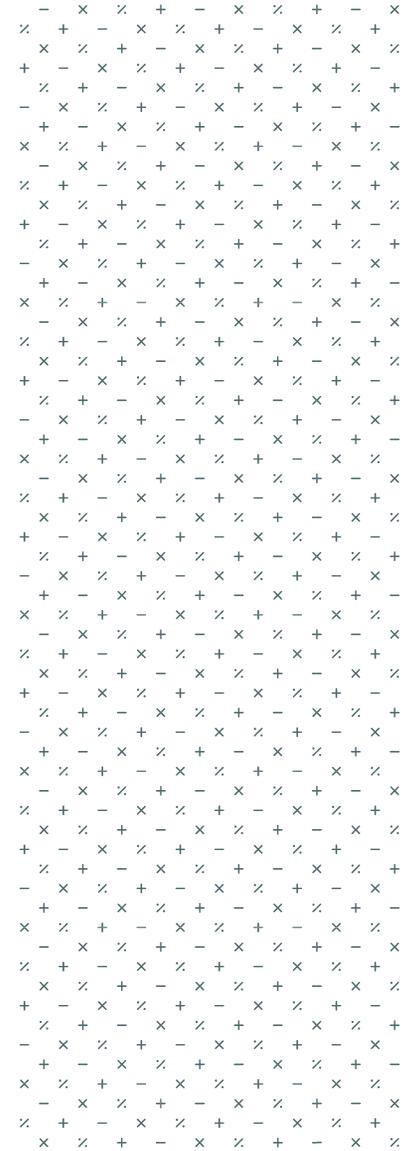




# Audit Entrance

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Better Together: Moss Adams & Metro





# Audit Committee

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Metro

Dear Audit Committee members:

Thank you for your continued engagement of Moss Adams LLP, the provider of choice for governmental organizations. We're pleased to present our audit plan for Metro for the year ending June 30, 2019. We'd also like to discuss current-year developments and auditing standard changes that will affect our audit.

We welcome any questions or input you may have regarding our audit plan, and we look forward to working with you.

# Your Dedicated Team

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**Jim Lanzarotta**  
*Engagement Reviewer  
and Partner*



**Kevin Mullerleile**  
*Concurring Reviewer,  
Senior Manager*



**Ashley Osten**  
*Senior Manager*



**Leila Annen**  
*Senior Manager,  
MAAS-IT Consulting*

# Required Communications to Those Charged with Governance



# Our Responsibility is to...

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- Assess if the financial statements prepared by management with your oversight are fairly presented, in all material respects, and in accordance with US GAAP. However, our audit doesn't relieve you or management of your responsibilities.
- Perform an audit in accordance with:
  - Generally accepted auditing standards issued by the AICPA.
  - Government auditing standards issued by the Comptroller General of the United States.
- Design the audit to provide assurance about whether the consolidated financial statements are free of material misstatement.
- Consider internal controls over financial reporting and compliance as a basis for designing effective audit procedures.
- Communicate findings that are relevant to your responsibilities in overseeing the specific matters of the financial reporting process and administering federal awards.

# Summary of Our Services

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- Report of Independent Auditors' on the basic financial statements
- Report of Independent Auditors' on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards
- Report of Independent Auditors' on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Uniform Guidance
- Report of Independent Auditors' on Compliance with the Provisions of the Oregon Zoo General Obligation Bonds, Natural Areas General Obligation Bonds, and Affordable Housing General Obligation Bonds
- Schedule of Findings and Questioned Costs
- Disclosures and Independent Auditors' Comments Required by the Minimum Standards for Audits of Oregon Municipal Corporations
- Communications to those charged with governance
- Information Technologies Report
- Management Letter



# Audit Process



## Internal Controls

- Includes IT

## Analytical Procedures

- Revenue and expenses
- Trends, comparisons, and expectations

## Substantive Procedures

- Confirm account balances
- Vouch to supporting documentation
- Representations from attorneys and management
- Examine objective evidence



# What's Materiality?

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It's the amount of a misstatement that could influence the economic decisions of users, taken on the basis of the financial statements.



It's calculated using certain **quantitative** (total assets) and **qualitative** factors (covenants, expectations, or industry factors)

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It identifies:

- 1 Significant risk areas
- 2 Nature, timing, extent, and scope of test work
- 3 Findings or misstatements

# Significant Audit Areas

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Revenues and receivables – occurrence and valuation



Bonds payable – Open Spaces, Affordable Housing, and Zoo Infrastructure



Capital assets – existence and valuation



Pension liability and related pension expense



Compliance with Federal laws and regulations and Oregon Minimum Standards (OMS)

# Consideration of Fraud



To identify fraud-related risks of material misstatement, we:

- Brainstorm with team
- Conduct personnel interviews
- Document understanding of internal control
- Consider unusual or unexpected relationships identified in planning and performing the audit



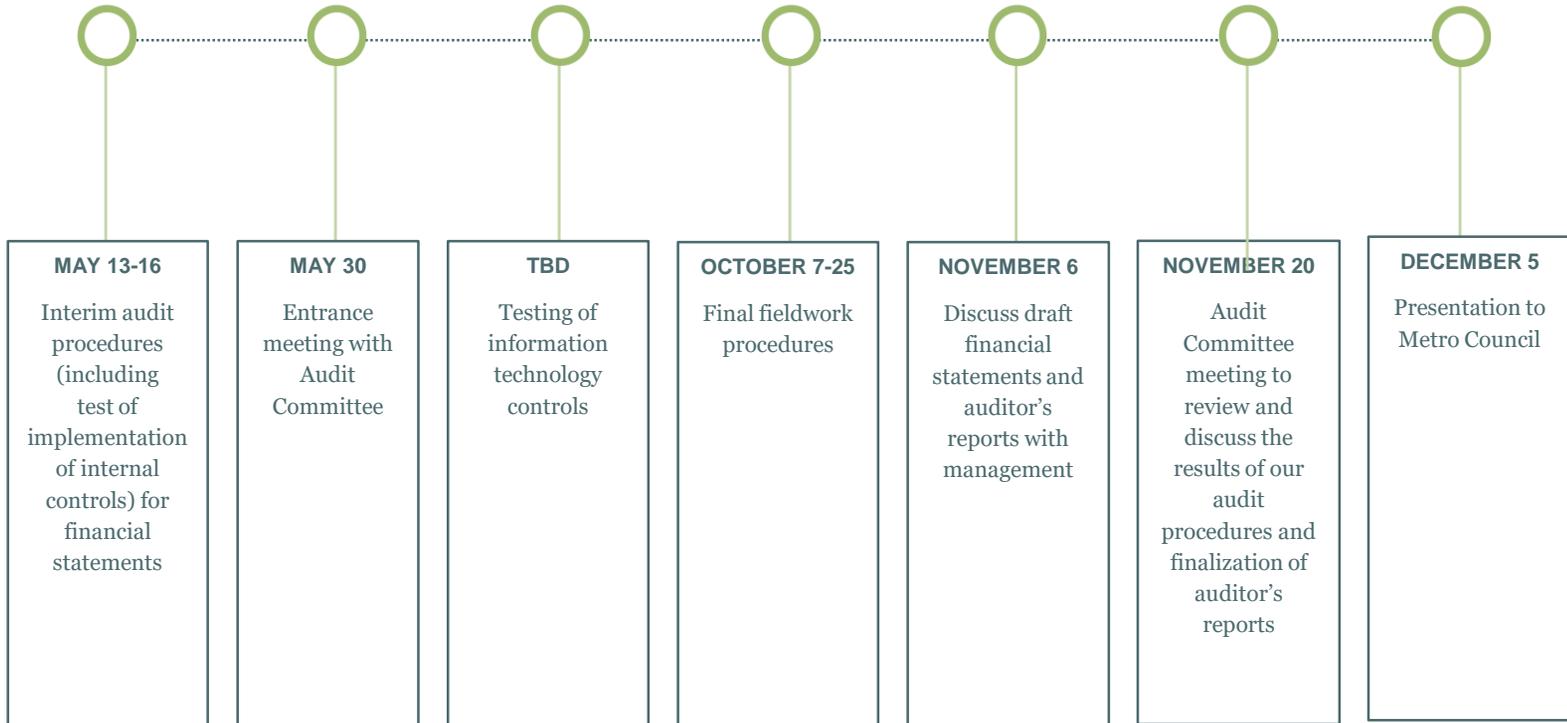
Auditors must consider fraud to “improve the likelihood that auditors will detect material misstatements due to fraud in a financial statement audit.”

Procedures we perform:

- Examine general journal entries for nonstandard transactions
- Evaluate policies and accounting for revenue recognition
- Test and analyze significant accounting estimates for biases
- Evaluate rationale for significant unusual transactions

# Audit Timing

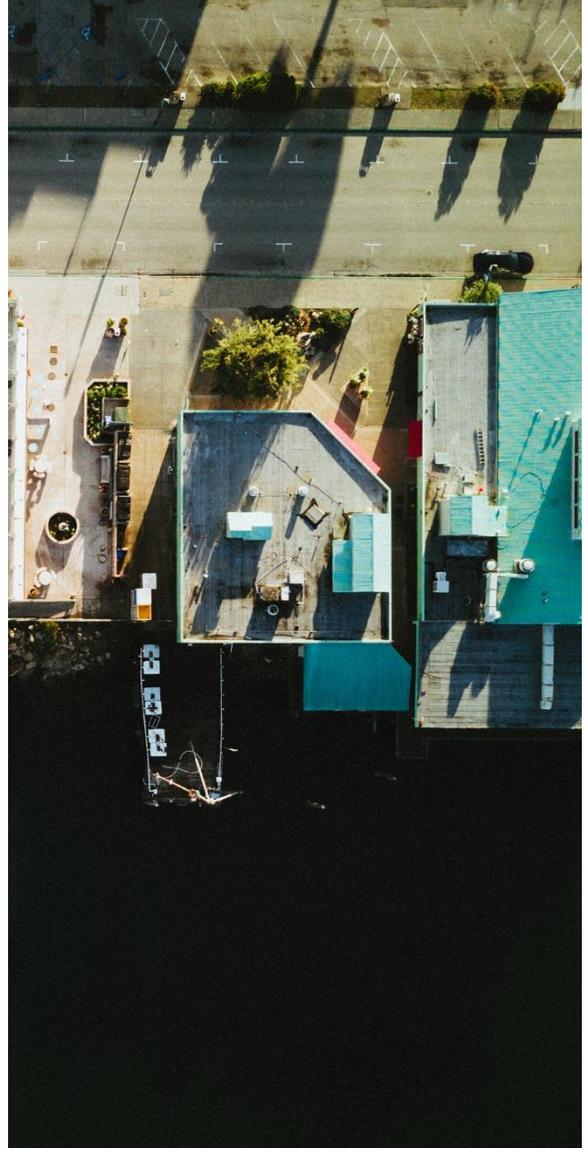
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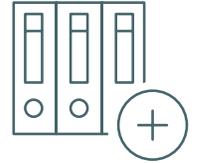
# Accounting Update

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# New Standards

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## Certain Asset Retirement Obligations

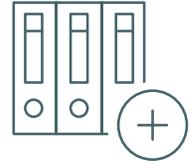
[GASB 83]

- Effective for the current fiscal year
- Establishes guidance for determining the timing and pattern of recognition for liabilities and corresponding deferred outflow of resources related to certain asset retirement obligations



# New Standards

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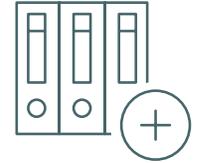
## Fiduciary Activities

[GASB 84]

- Effective for June 30, 2020 fiscal year
- Establishes criteria for identifying fiduciary activities of all state and local governments
- Clarifies whether and how business-type activities should report their fiduciary activities
- Early adoption is allowed



# New Standards



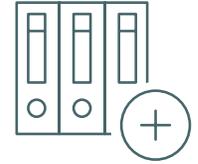
## Leases

[GASB 87]

- Effective for June 30, 2021 fiscal year
- Requires that government lessees recognize the following: (a) a lease liability and (b) an intangible asset representing the lessee's right to use the leased asset; and report in its financial statements: (a) amortization expense for using the lease asset over the shorter of the term of the lease or the useful life of the underlying asset, (b) interest expense on the lease liability and (c) note disclosures about the lease.
- Under Statement 87, government lessors must recognize: (a) a lease receivable and (b) a deferred inflow of resources and continue to report the leased asset in its financial statements and report in its financial statements: (a) lease revenue, recognized over the term of the lease, corresponding with the reduction of the deferred inflow, (b) interest income on the receivable; and (c) note disclosures about the lease.



# New Standards



## Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements

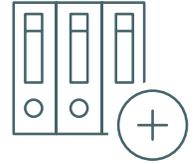
[GASB 88]

- Effective for the current fiscal year
- Clarifies which liabilities governments should include in their note disclosures related to debt.
- Requires that all debt disclosures present direct borrowings and direct placements of debt separately from other types of debt.
- Defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.
- Requires governments to disclose additional essential debt-related information for all types of debt, including: amounts of unused lines of credit, assets pledged as collateral for debt, and terms specified in debt agreements related to significant: (a) events of default with finance-related consequences, (b) termination events with finance-related consequences, and (c) subjective acceleration clauses.



# New Standards

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## Accounting for Interest Cost Incurred before the End of a Construction Period

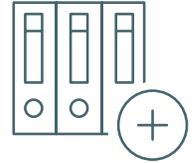
[GASB 89]

- Effective for June 30, 2021 fiscal year.
- Requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements that are prepared using the economic resources measurement focus.
- Interest cost will no longer be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.
- Early adoption is permitted.



# New Standards

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## Majority Equity Interests

[GASB 90]

- Effective for June 30, 2020 fiscal year.
- Clarifies the accounting and financial reporting requirements for a majority equity interest in an organization that remains legally separate after acquisition.
- Establishes guidance for re-measuring assets and liabilities of wholly acquired governmental organizations that remain legally separate.
- Early adoption is permitted.



# Accounting Standards in the Works

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**Financial Reporting Model:** Objective is to make improvements to the financial reporting model to enhance the effectiveness of the model in providing information that is essential for decision-making and enhance the ability to assess a government's accounting and address certain application issues.

- *Current developments: Comments from stakeholders being discussed. Final statement not expected until 2022.*

**Revenue and Expense Recognition:** Objective is to develop a comprehensive application model for the classification, recognition, and measurement of revenues and expenses to

1. Improve the information regarding revenues and expenses that users receive to make decisions,
2. Provide guidance regarding exchange and exchange-like transactions
3. Evaluate revenue and expense recognition in the context of the conceptual framework
4. Consider application issues in practice.

- *Current developments: Comment period ended on April 27, 2018. Public hearings were scheduled in May. Final statement not expected until 2023.*

**Note Disclosure Reexamination:** Objective is to evaluate whether currently required note disclosures are sufficiently meeting the information needs of the users of state and local government financial reports.

- *Current developments: Added to agenda in April 2016. Plans to discuss pre-agenda research in July 2018.*

# Contact Us



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