Exhibit to Agenda Item #1

2019 Financial Statements External Audit Report by SMUD’s independent auditor, Baker Tilly Virchow Krause, LLP

Board Finance & Audit Committee and Special SMUD Board of Directors Meeting
Tuesday, March 17, 2020 scheduled to begin at 5:30 p.m.
Auditorium, SMUD Headquarters Building
SMUD

Agenda

Audit recap

Audit results

Communication to the SMUD oversight body

Impact of future accounting standards
SMUD Audit hours

SMUD & JPA Audit Hours

- Baker Tilly: 67%
- James Marta & Company: 18%
- AQS: 15%
Audit overview

Audit assesses internal controls

“….a means by which an organization’s resources are directed, monitored, and measured. It plays an important role in preventing and detecting fraud and protecting the organization’s resources”

Controls must meet the goal and objectives of Operations, Reporting and Compliance
SMUD

Testing methods

- Evaluating and assessing risk
- Interviewing employees and documenting business processes
- Testing business processes for weaknesses and adherence to policies
- Statistical sampling
SMUD

Testing methods

- Independent confirmations
- Use of specialist reports
- Tracing to source documents
## SMUD

**Major transactional areas tested**

<table>
<thead>
<tr>
<th>Controls reviewed in key transaction areas</th>
<th>Expenditures</th>
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<tbody>
<tr>
<td></td>
<td>Payroll</td>
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<tr>
<td></td>
<td>Revenues</td>
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<tr>
<td></td>
<td>Cash and investments</td>
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<td>Capital assets</td>
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<td>Information technology</td>
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What were the audit results?

Audit performed in accordance with **Generally Accepted Auditing Standards and Government Auditing Standards**

Audit objective - reasonable assurance that financial statements are free from material misstatement

Financial statements of SMUD received an **Unmodified Opinion**

There were no material weaknesses or significant deficiencies in controls
Auditor communication to those charged with governance

- Auditor responsibility & independence
- Board responsibility
- Accounting policies and estimates
- Baker Tilly agrees with SMUD’s accounting policies and disclosures
- There were no adjustments to the financial statements
- No audit findings or auditor concerns on SMUD’s financial reporting
GASB 87 – Leases - 2020
We appreciate the help of the SMUD Accounting and Audit & Quality Services teams in preparing for and assisting in the audit!
Discussion
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