

**METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA**

Report to the Board of Directors

For the Year Ended June 30, 2024



Board of Directors
Metropolitan Water District of Southern California
Los Angeles California

We are pleased to present this report related to our audit of the Metropolitan Water District of Southern California (Metropolitan) financial statements, as of and for the years ended June 30, 2024, and 2023. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Metropolitan's financial reporting process.

In addition to Metropolitan's basic financial statements, we audit and separately report on the following financial statements as of and for the year ended June 30, 2024.

- Colorado River Authority (a private-purpose trust fund of Metropolitan)
- Six Agency Committee (a private-purpose trust fund of Metropolitan)
- Delta Conveyance Design and Construction Authority

This report is intended solely for the information and use of the Board of Directors and management of the Metropolitan and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to the Metropolitan.

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style.

Los Angeles, California
November 4, 2024

TABLE OF CONTENTS

Required Communications	1
Significant Accounting Estimates	5
Exhibits	
Exhibit A—Recent Accounting Pronouncements	7

REQUIRED COMMUNICATIONS

Auditing standards generally accepted in the United States of America (AU-C 260, *The Auditor’s Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the basic financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial and related compliance reporting process.

Our Responsibilities With Regard to the Financial Statement Audit

Our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States have been described to you in our engagement letter dated June 14, 2024. Our audit of the basic financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

Overview of the Planned Scope and Timing of the Financial Statement Audit

We have communicated to you the planned scope and timing of our audit in our engagement letter dated June 14, 2024, and in our Audit Plan presented to the Audit Subcommittee of the Executive Committee on May 28, 2024.

Accounting Policies and Practices

Preferability of Accounting Policies and Practices

Management has the ultimate responsibility for the appropriateness of the accounting policies used by Metropolitan. Metropolitan did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the fiscal year ended June 30, 2024.

Significant Accounting Policies

A summary of the significant accounting policies adopted by Metropolitan is included in Note 1 to the financial statements. We did not identify any significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Unusual Transactions

We did not identify any significant unusual transactions.

Management’s Judgments and Accounting Estimates

Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached Summary of Significant Accounting Estimates.

Audit Adjustments and Uncorrected Misstatements

There were no audit adjustments made to the original trial balance presented to us to begin our audit. We are unaware of any uncorrected misstatements.

Observations About the Audit Process

Disagreements With Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the basic financial statements.

Consultations With Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Significant Issues Discussed With Management

No significant issues arising from the audit were discussed or were the subject of correspondence with management.

Significant Difficulties Encountered in Performing the Audit

We did not encounter any significant difficulties in dealing with management during the audit.

Difficult or Contentious Matters That Required Consultation

We did not encounter any significant and difficult or contentious matters that required consultation outside the engagement team.

Shared Responsibilities for Independence

Independence is a **joint responsibility** and is managed most effectively when management, audit committees (or their equivalents), and audit firms work together in considering compliance with American Institute of Certified Public Accountants (AICPA) and *Government Accountability Office* (GAO) independence rules. For MGO to fulfill its professional responsibility to maintain and monitor independence, management, the Board of Directors and MGO each play an important role.

Our Responsibilities

- AICPA and GAO rules require independence both of mind and in appearance when providing audit and other attestation services. MGO is to ensure that the AICPA and GAO's General Requirements for performing non-attest services are adhered to and included in all letters of engagement.
- Maintain a system of quality management over compliance with independence rules and firm policies.

The Metropolitan's Responsibilities

- Timely inform MGO, before the effective date of transactions or other business changes, of the following:
 - New affiliates, Board members, or officers.
 - Changes in the organizational structure or the reporting entity impacting affiliates such as partnerships, related entities, investments, joint ventures, component units, and jointly governed organizations.

- Provide necessary affiliate information such as new or updated structure charts, as well as financial information required to perform materiality calculations needed for making affiliate determinations.
- Understand and conclude on the permissibility, prior to Metropolitan and its affiliates, officers, Board members, or persons in a decision-making capacity, engaging in business relationships with MGO.
- Not entering into arrangements of nonaudit services resulting in MGO being involved in making management decisions on behalf of Metropolitan.
- Not entering into relationships resulting in close family members of MGO covered persons, temporarily or permanently acting as an officer, director, or person in an accounting, financial reporting or compliance oversight role at Metropolitan.

Management Representations

We have requested certain written representations from management, which are included in the management representation letter dated November 4, 2024.

Other Information in Documents Containing Audited Financial Statements

Pursuant to professional standards, our responsibility as auditors for other information in documents containing Metropolitan's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, in accordance with such standards:

Required Supplementary Information

We applied certain limited procedures to the management's discussion and analysis and the pension and other postemployment benefits related schedules, which is required supplementary information (RSI) that supplements the financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Supplementary Information

We were engaged to report on the following supplementary information, which accompany the financial statements but are not RSI:

- Fiduciary Fund Descriptions
- Combining Statements of Fiduciary Net Position – Private Purpose Trust Funds
- Combining Statements of Changes in Fiduciary Net Position – Private Purpose Trust Funds
- Combining Statements of Fiduciary Net Position – Custodial Funds
- Combining Statements of Changes in Fiduciary Net Position – Custodial Funds

Other Information

The other information in the Annual Comprehensive Financial Report (ACFR) comprises the introductory and statistical sections. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

Our responsibility for other information included in the ACFR is to read the information and consider whether its content or the manner of its presentation is materially inconsistent with the financial information covered by our auditor's report, whether it contains a material misstatement of fact or whether the other information is otherwise misleading. We read Metropolitan's introductory and statistical sections, and did not identify material inconsistencies with the audited basic financial statements.

Internal Control and Compliance Matters

We have separately communicated on internal control and compliance over financial reporting identified during our audit of the basic financial statements as required by *Government Auditing Standards*. This communication is included in the report on the basic financial statements, other report section.

SIGNIFICANT ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the preparation of financial statements and are based upon management’s current judgment. The process used by management encompasses their knowledge and experience about past and current events, and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following summarizes the significant accounting estimates reflected in Metropolitan’s June 30, 2024 basic financial statements.

Significant Accounting Estimates	
Measurement of investments at fair value	<p>Metropolitan’s investments are accounted for in accordance with the provisions of GASB Statement No. 72, <i>Fair Value Measurement and Application</i>, and accordingly, its fair value measurements are categorized within the fair value hierarchy established by the standard. The following levels indicate the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:</p> <ul style="list-style-type: none"> ○ Level 1 – Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date. ○ Level 2 – Investments whose values are based on inputs – other than quoted prices including prices included within level 1 – that are observable for an asset, either directly or indirectly. ○ Level 3 – Investments whose values are based on unobservable inputs for an asset and may require a degree of professional judgment. <p>MGO compared investment values to market prices and shares reported by the custodian bank and determined that they were reasonable.</p>
Depreciation for capital assets, including depreciation methods and useful lives assigned to depreciable property	<p>Useful lives for depreciable property were determined by management based on the nature of the capital asset. Depreciation was calculated based on the straight-line method.</p> <p>MGO assessed the reasonableness of the useful lives based on the nature of the capital asses and performed substantive analytical procedures on depreciation expenses and determined the estimates were reasonable.</p>
Measurement of the pension contributions, net pension liability, pension expense, and pension-related deferred outflows and inflows of resources	<p>Pension plans’ employer and employee contributions requirements, net pension liability, and related deferred outflows and inflows of resources were based on actuarial valuations prepared by CalPERS.</p> <p>MGO agreed the calculations to actuarial valuations prepared by the CalPERS and tested for reasonableness.</p>

Significant Accounting Estimates

Measurement of the other postemployment benefits (OPEB) contributions, net OPEB liability, OPEB expense and OPEB-related deferred outflows and inflows of resources

OPEB plans' employer contributions requirements, net OPEB liability, and related deferred outflows and inflows of resources were based on actuarial valuations prepared by Cheiron, Inc.
MGO agreed the calculations to actuarial valuations prepared by Cheiron, Inc., and tested for reasonableness.

Water inventory calculation

Water inventory is calculated by taking beginning water inventory plus water receipts minus cost of water. Cost of water is calculated by using the moving-average unit cost multiplied by water sold/loss in acre feet.
MGO observed water levels at significant water storage sites and performed audit procedures over water purchases throughout the year to substantiate the reasonableness of ending water inventory balances.

EXHIBIT A

Recent Accounting Pronouncements

RECENT ACCOUNTING PRONOUNCEMENTS

The following accounting pronouncements have been issued as of November 4, 2024, but are not yet effective and may affect the future financial reporting by Metropolitan.

Pronouncement	Summary
<p>GASB Statement No. 101, <i>Compensated Absences</i></p>	<p>The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This statement is effective for reporting period beginning after December 15, 2023.</p>
<p>GASB Statement No. 102, <i>Certain Risk Disclosures</i></p>	<p>The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government’s vulnerabilities due to certain concentrations or constraints. This Statement defines a <i>concentration</i> as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A <i>constraint</i> is a limitation imposed on a government by an external party or by formal action of the government’s highest level of decision-making. Concentrations and constraints may limit a government’s ability to acquire resources or control spending. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024.</p>

Pronouncement	Summary
<p>GASB Statement No. 103, <i>Financial Reporting Model Improvements</i></p>	<p>The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government’s accountability. This Statement also addresses certain application issues:</p> <ul style="list-style-type: none"> (1) Management’s Discussion and Analysis, (2) Unusual or Infrequent Items, (3) Presentation of the Proprietary Fund Statement of Revenues, (4) Expenses, and Changes in Fund Net Position, (5) Major Component Unit Information, and (6) Budgetary Comparison Information. <p>The requirements of this Statement are effective for fiscal years beginning after June 15, 2025</p>
<p>GASB Statement No. 104, <i>Disclosure of Certain Capital Assets</i></p>	<p>The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025.</p>