



Audit Committee

3/9/2026 Committee Meeting

7b

Subject

Independent Auditor Macias Gini & O'Connell, LLP's Report on the Single Audit

Executive Summary

This item will share information from the external auditor, hired to perform the Single Audit for fiscal year 2024/25. A Single Audit is required when the District expends \$750,000 or more in aggregate federal monies within a fiscal year. In performing the Single Audit, the external auditor rendered unmodified opinions for both major programs and noted no control deficiencies or instances of noncompliance.

Applicable Policy

Metropolitan Water District Administrative Code Section 6450(e): Powers and Duties

Details and Background

The Single Audit is an audit of the entity's financial statements and internal controls over expenditures related to major federal program awards.

The purpose of the Single Audit is to verify compliance with federal regulations, evaluate the recipient's internal controls, and promote accountability.

The requirement for a Single Audit is triggered when grant recipients, in this case the District, expend \$750,000 or more in aggregate federal financial assistance within their fiscal year. The \$750,000 threshold increases to \$1 million beginning with Metropolitan's fiscal year 2025/26. Single Audits must be performed by independent auditors in accordance with Government Auditing Standards.

Single Audits are comprised of two main sections:

- **Financial Statements:** An opinion on whether the financial statements are presented fairly in accordance with Government Auditing Standards.
- **Programmatic Compliance Evaluation:** An opinion on whether the entity complied with laws, regulations, and provisions of contracts or grant agreements that have a direct and material effect on a major federal program.

The Office of the General Auditor is the contract administrator for the four-year independent (external) auditor contract with Macias Gini & O'Connell, LLP, which is in place through fiscal year 2025/26. The contract is for the performance of the annual independent audit of Metropolitan's financial statements and the Single Audit, in years when the spending threshold of federal financial assistance is met.

Metropolitan's Administrative Code 6450(e) requires the General Auditor to transmit all reports issued by the District's external auditors to the Audit Committee, including any comments on the external auditor's reports that the General Auditor deems necessary.

**Attachment 1 – The Metropolitan Water District of Southern California – Single Audit Reports –
FYE 6.30.25**

**THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA**

Single Audit Reports

For the Fiscal Year Ended June 30, 2025

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
 Single Audit Reports
 For the Fiscal Year Ended June 30, 2025

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**Independent Auditor's Report 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***

The Board of Directors of
The Metropolitan Water District of Southern California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the business-type activities and fiduciary activities of the Metropolitan Water District of Southern California (Metropolitan), as of and for the fiscal year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise Metropolitan's basic financial statements, and have issued our report thereon dated November 4, 2025. Our report included an emphasis of matter paragraph for Metropolitan's adoption of Governmental Accounting Standards Board Statement No. 101, *Compensated Absences*.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Metropolitan'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Metropolitan's internal control. Accordingly, we do not express an opinion on the effectiveness of Metropolitan'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 financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Metropolitan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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, 2025



**Independent Auditor's Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; and Report on Schedule of
Expenditures of Federal Awards Required by the Uniform Guidance**

The Board of Directors of
The Metropolitan Water District of Southern California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Metropolitan Water District of Southern California (Metropolitan) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Metropolitan's major federal programs for the fiscal year ended June 30, 2025. Metropolitan's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Metropolitan complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Metropolitan and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Metropolitan's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Metropolitan's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Metropolitan's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Metropolitan's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Metropolitan's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Metropolitan's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Metropolitan's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant

deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the business-type activities and fiduciary activities of Metropolitan, as of and for the fiscal year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise Metropolitan's basic financial statements. We issued our report thereon dated November 4, 2025, which contained unmodified opinions on those financial statements, and included an emphasis of matter paragraph for Metropolitan's adoption of Governmental Accounting Standards Board Statement No. 101, *Compensated Absences*. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Macias Gini & O'Connell LLP

Los Angeles, California
January 23, 2026

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2025

Federal Grantor/Pass-Through Entity/Program Title or Cluster	Assistance Listing Number (ALN)	Grant / Pass-Through Entity's Identifying Number	Federal Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture:				
<u>Passed through Yorba Linda Water District</u>				
Community Project Funding - Congressionally Directed Funding Helicopter Hydrant	10.723	AO-5305	\$ 291,183	\$ -
Total U.S. Department of Agriculture			<u>291,183</u>	<u>-</u>
U.S. Department of the Interior:				
<u>Direct Programs</u>				
Water Recycling and Desalination Construction Programs Pure Water Southern California - Large Scale	15.504	R25AP00229-1	19,990,373	4,168,545
Planning for Pure Water Southern California Program Assistance Listing Total	15.504	R24AP00286-1	<u>3,889,919</u>	<u>264,035</u>
			<u>23,880,292</u>	<u>4,432,580</u>
<u>Direct Programs</u>				
WaterSMART (Sustain and Manage America's Resources for Tomorrow) Regional Public Agency Turf Replacement Program	15.507	R22AP00505-2	275,241	-
Turf Replacement Incentive - Residential & Commercial Assistance Listing Total	15.507	R23AP00426-1	<u>998,362</u>	<u>-</u>
			<u>1,273,603</u>	<u>-</u>
Total U.S. Department of the Interior			<u>25,153,895</u>	<u>4,432,580</u>
U.S. Department of Homeland Security:				
<u>Passed through California Governor's Office of Emergency Services (CalOES)</u>				
Disaster Grants - Public Assistance (Presidentially Declared Disasters) Hazard Mitigation Grant	97.036 97.039	FEMA-4683-DR-CA037-91117 FEMA-4569-DR-CA037-91117	395,810 27,641	- -
Total U.S. Department of Homeland Security			<u>423,451</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 25,868,529</u>	<u>\$ 4,432,580</u>

See accompanying notes to the schedule of expenditures of federal awards.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Notes to the Schedule of Expenditures of Federal Awards

For the Fiscal Year Ended June 30, 2025

NOTE 1 – GENERAL

The accompanying Schedule of Expenditures of Federal Awards (Schedule) presents the activity of all federal award programs of the Metropolitan Water District of Southern California (Metropolitan). The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Metropolitan's reporting entity is defined in Note 1 in the notes to Metropolitan's basic financial statements.

NOTE 2 – BASIS OF ACCOUNTING AND PRESENTATION

Expenditures reported in the accompanying Schedule are presented using the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where applicable. Metropolitan did not elect to use the 10% de minimis cost rate as covered in 2 CFR Section 200.414 Indirect (Facilities & Administration) costs.

NOTE 3 – RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Expenditures of federal awards are reported in Metropolitan's basic financial statements as expenditures in the business-type activities. Federal award expenditures agree or can be reconciled with the amounts reported in Metropolitan's basic financial statements.

NOTE 4 – DIRECT AND PASS-THROUGH FEDERAL AWARDS

Federal awards may be granted directly to Metropolitan by a federal granting agency or may be granted to other government agencies which pass-through federal awards to Metropolitan. The Schedule includes both of these types of federal award programs when related expenditures are incurred.

NOTE 5 – U.S. DEPARTMENT OF THE INTERIOR – BUREAU OF RECLAMATION (USBR) – WATER RECYCLING AND DESALINATION CONSTRUCTION PROGRAMS (ALN 15.504)

Metropolitan incurred eligible pre-award costs associated with the USBR Water Recycling and Desalination Construction Programs grant during fiscal years 2020 through 2025. A total of \$14,987,808 was claimed as allowable pre-award expenditures in accordance with the grant agreement provisions and are included in the total expenditures reported on the SEFA for fiscal year 2024-25.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Notes to the Schedule of Expenditures of Federal Awards (Continued)

For the Fiscal Year Ended June 30, 2025

NOTE 5 – U.S. DEPARTMENT OF THE INTERIOR – BUREAU OF RECLAMATION (USBR) – WATER RECYCLING AND DESALINATION CONSTRUCTION PROGRAMS (ALN 15.504) - Continued

Period of Expenditure	R25AP00229	R24AP00286	Reported Pre-award Amount
FY2019-20	\$ 207,357	\$ —	\$ 207,357
FY2020-21	682,908	—	682,908
FY2021-22	2,361,895	—	2,361,895
FY2022-23	4,332,086	—	4,332,086
FY2023-24	3,340,070	2,450,972	5,791,042
FY2024-25	1,612,520	—	1,612,520
Total Pre-award ¹	12,536,836	2,450,972	14,987,808
FY2024-25	7,453,537	1,438,947	8,892,484
Total Expenditures	\$ 19,990,373	\$ 3,889,919	\$ 23,880,292

NOTE 6 – U.S. DEPARTMENT OF HOMELAND SECURITY – DISASTER GRANTS PUBLIC ASSISTANCE (ALN 97.036)

Metropolitan incurred eligible expenditures under the Federal Emergency Management Agency (FEMA) Disaster Grants – Public Assistance program during fiscal year 2022–23. In fiscal year 2024–25, the California Governor’s Office of Emergency Services (CalOES) approved Metropolitan’s Project Worksheet Nos. 477 and 964 under this program.

The total expenditures of \$395,810 reported on the SEFA represent the eligible costs incurred and subsequently approved under these two project worksheets, as summarized below:

Project WS No.	Period of Expenditure	Amount Reported on SEFA
477	2022-23	\$ 321,484
964	2023-24	74,326
		<u>\$ 395,810</u>

¹ Per agreements, the pre-award periods are from April 3, 2020 through January 10, 2025, and from September 27, 2023 through May 20, 2024, for R25AP00229 and R24AP00286, respectively.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
 Schedule of Findings and Questioned Costs
 For the Fiscal Year Ended June 30, 2025

Section I – Summary of Auditor’s Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None reported
Noncompliance material to the financial statements noted?	No

Federal Awards

Internal control over major federal programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	No
Type of auditor’s report issued on compliance for the major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major federal programs:

<u>Name of Federal Program or Cluster</u>	<u>Assistance Listing Number</u>
Water Recycling and Desalination Construction Programs	15.504
WaterSMART (Sustain and Manage America’s Resources for Tomorrow)	15.507

Dollar threshold used to distinguish between type A and type B programs:	\$776,056
Auditee qualified as a low-risk auditee?	No

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2025

Section II – Financial Statement Findings

No current year findings are reported.

Section III – Federal Award Findings and Questioned Costs

No current year findings are reported.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2025

There were no prior year audit findings.