



# Metropolitan Water District of Southern California Discussion with Those Charged with Governance

Audit results for the year ended June 30, 2021

October 26, 2021



# Executive summary



# Our commitment to you

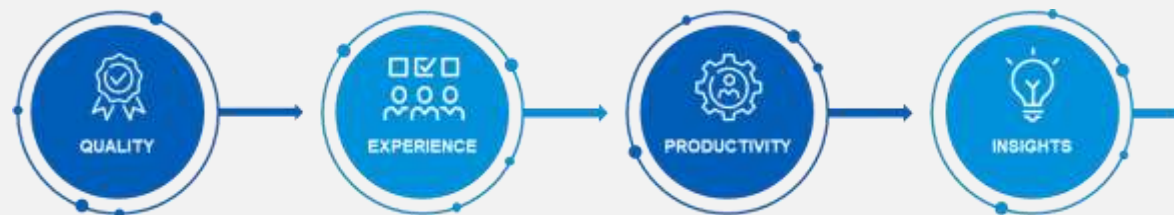


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See patterns in what has passed. See where risks may emerge. See opportunities emerge. See opportunities to optimize processes. And see ahead to new possibilities.

## **We aim to deliver an exceptional client experience for Metropolitan Water District of Southern California by focusing on:**





# Required Communications to Those Charged with Governance



# Summary: Audit results required communications and other matters

		Response
Audit results	Outstanding matters	Pending completion of the following: <ul style="list-style-type: none"> <li>- Delta Conveyance Design and Construction Joint Powers Authority</li> <li>- Single Audit</li> </ul>
	Significant unusual transactions	No significant unusual transactions identified during the audit.
	Uncorrected audit misstatements	See slide 7.
	Corrected audit misstatements	See slide 8.
	Financial presentation and disclosure omissions	No matters to communicate.
	Non-GAAP policies and practices	See slide 6.
	Auditors' reports	See slide 9.
	Changes to our risk assessment and planned audit strategy	No matters to report.
	Significant accounting policies and practices	See note 1 to the financial statements. Financial statements reflect adoption of GASB 84. See also slide 10.
	Significant accounting estimates	See slide 11.
	Significant financial statement disclosures	See notes to the financial statements.
	Related parties	No matters to report. Related parties represent the member agencies of Metropolitan.
	Going concern	No matters to report.
	Other information	No matters to report.

# Summary: Audit results required communications and other matters

		Response
Audit results	Subsequent events	See note 16 to the financial statements.
	Illegal acts or fraud	No actual or suspected fraud involving management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit.
	Noncompliance with laws and regulations	No matters to report.
	Significant difficulties encountered during the audit	No matters to report.
	Significant findings or issues discussed, or the subject of correspondence, with management	No matters to report.
	Management's consultation with other accountants	No matters to report.
	Difficult or contentious matters for which the auditor consulted	No matters to report.
	Disagreements with management	No matters to report.
	Other significant matters	No matters to report.
	Written communications	Engagement letter, management representation letter, including summary of uncorrected misstatements.
	Independence	No matters to report.
	Inquiries	See slide 12.



# Non-GAAP policies and practices

Metropolitan has adopted certain accounting policies or practices that, if applied to significant items or transactions, would not be in accordance with U.S. generally accepted accounting principles. Metropolitan has evaluated the effect of the application of such policies and practices on the financial statements and concluded that such effect is not material to the 2021 financial statements.

Non-GAAP polices and practices	Impact of non-GAAP policies and practices
Non-accrual of liabilities	No significant changes in non-GAAP policies from the prior year. See misstatement 2 on slide 7

Management of Metropolitan has evaluated the impact of the application of such policies and practices on future periods and expects the impact not to be material to the financial statements in future periods

# Uncorrected audit misstatements

	\$(Million)
Description of misstatement (Business-type activities)	Quantitative income statement effect, (Change in Net Position)
	Rollover – year to date
<b>Misstatement 1 – Out of period adjustment (capitalized interest)</b> Operations and maintenance	(\$12.9)
<b>Misstatement 2 – Net non-GAAP adjustments related to accrual of liabilities</b> Operations and maintenance	(\$8.5)
<b>Total</b>	(\$21.4)
<b>Percentage of Total Revenues</b>	0%
<b>Percentage of Total Expenses</b>	1.4%



# Corrected audit misstatements

\$(Million)		
Description of misstatement (Business-type activities)	Debit	Credit
<b>Misstatement 4</b>		
Restricted for capital assets	\$110	
Net investment in capital assets		\$110

There was no impact on Metropolitan's total net position.

# Auditors' report

Auditors' report	Entity
Unmodified	Metropolitan Water District of Southern California (business-type activities and fiduciary activities)
Unmodified	Comprehensive Annual Financial Report of the Metropolitan Water District of Southern California
Unmodified	Six Agency Committee
Unmodified	Colorado River Joint Powers Authority
Pending – audit still in progress	Delta Conveyance Design and Construction Joint Powers Authority (DCA)
Pending – audit still in progress	Single Audit

# Significant accounting policies and practices

Description of significant accounting policies and practices	Audit findings
Capital assets (Note 2)	No significant changes to content in footnote from prior year.
Cash Investments (Note 3)	No significant changes to content in footnote from prior year. Fiduciary funds are now broken out separately.
Participation Rights and Participation rights in the State Water Project (Notes 4 and 10)	No significant changes to content in footnote from prior year.
Long-Term Liabilities (Note 6)	New debt issuances and refundings are summarized in the footnote.
Pension Plan (Note 7)	No significant changes to content in footnote from prior year. See also slide 12.
Post-Employment Benefits other than Pensions (Note 8)	No significant changes to content in footnote from prior year.
Commitments and Contingencies (Note 9)	Updates to Metropolitan's commitments and contingencies are summarized in footnote.
COVID-Pandemic (Note 15)	No significant changes to content in footnote from prior year.
Subsequent Events (Note 16)	Activity occurring subsequent to year end are summarized in this footnote.

# Significant accounting estimates

## Description of significant accounting estimates

- Net pension liability and net OPEB liability are actuarially determined based on various assumptions and the valuation of investments are recorded at the estimated fair value as of June 30, 2021.

## Audit findings

### Management's process used to develop the estimates

- Net pension liability is based on the actuarial report issued by CalPERS. The liabilities are determined based on the participant data and assumptions in accordance with GASB 68 for Pension.
- Net OPEB liability is based on the actuarial report issued by Bartel. The liabilities are determined based on the participant data and assumptions in accordance with GASB 75 for other postemployment benefits, however, the net pension liability is significantly larger than the net OPEB liability.
- Investment valuations are typically based on quoted market prices and other publicly available information. There were no high degrees of subjectivity related to the valuation of investments.

### Significant assumptions used that have a high degree of subjectivity

- There were no changes in assumptions from the prior year.

### Indicators of possible management bias

- None noted

## Conclusions

- No reportable misstatements noted.

# Inquiries

The following inquiries are in accordance with AU-C 260

## Are those charged with governance aware of:

- Matters relevant to the audit, including, but not limited to, violations or possible violations of laws or regulations?
- Any significant communications with regulators?
- Any developments in financial reporting, laws, accounting standards, corporate governance, and other related matters, and the effect of such developments on, for example, the overall presentation, structure, and content of the financial statements, including the following:
  - The relevance, reliability, comparability, and understandability of the information presented in the financial statements
  - Whether all required information has been included in the financial statements, and whether such information has been appropriately classified, aggregated or disaggregated, and presented?

## Do those charged with governance have knowledge of:

- Fraud, alleged fraud, or suspected fraud affecting the Company?

## Additional inquiries:

- What are those charged with governance's views about fraud risks in the Company?
- Who is the appropriate person in the governance structure for communication of audit matters during the audit?
- How are responsibilities allocated between management and those charged with governance?
- What are the Company's objectives and strategies and related business risks that may result in material misstatements?
- Are there any areas that warrant particular attention during the audit and additional procedures to be undertaken?
- What are those charged with governance's attitudes, awareness, and actions concerning (a) the Company's internal controls and their importance in the entity, including oversight of effectiveness of internal controls, and (b) detection of or possibility of fraud?
- Have there been any actions taken based on previous communications with the auditor?
- Has the Company entered into any significant unusual transactions?
- Whether the entity is in compliance with other laws and regulations that have a material effect on the financial statements?
- What are the other document(s) that comprise the annual report, and what is the planned manner and timing of issuance of such documents?
- Have any subsequent events occurred that might affect the financial statements?

# Questions?

For additional information and audit committee resources, including National Audit Committee Peer Exchange series, a Quarterly webcast, and suggested publications, visit the KPMG Audit Committee Institute (ACI) at [www.kpmg.com/ACI](http://www.kpmg.com/ACI)

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