



Metropolitan Water District of Southern California

Report to the Audit and Ethics Committee 2019 Audit Results

June 30, 2019

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November 4, 2019

Introduction

To the Audit and Ethics Committee of The Metropolitan Water District of Southern California:

We are pleased to have the opportunity to meet with you on November 4, 2019 to discuss the results of our audit of the basic financial statements of Metropolitan Water District of Southern California as of and for the year ended June 30, 2019. Our audit was conducted in accordance with the terms established in the agreement number 177666 dated February 13, 2018.

This document should be read in conjunction with our audit plan, presented on July 23, 2019. We will be pleased to elaborate on the matters covered in this document when we meet.

Audit results required communications and other matters summary

Communication topic	Response
<p>Scope of audit</p>	<p>Our audit of the financial statements and Comprehensive Annual Financial Report of the Metropolitan Water District of Southern California, Six Agency Committee, Colorado River Joint Powers Authority and Delta Conveyance Design and Construction Joint Powers Authority as of and for the year ended June 30, 2019 in accordance with auditing standards generally accepted in the United States of America.</p>
<p>Changes to our planned risk assessment and planned audit strategy</p>	<p>There have been no significant changes to our planned risk assessment and planned audit strategy.</p>
<p>Auditors' report</p>	<p>No modifications were made to the standard audit report.</p>

Audit results required communications and other matters summary

Communication topic	Response
Significant accounting policies <ul style="list-style-type: none">• Principles of Presentation• Revenue Policies• Taxing Authority• Participation Right• Pension Accounting• OPEB Accounting	<ul style="list-style-type: none">- Special-purpose government agency engaged in business-type activities- Water rates are established by the Board- Taxing Authority provided under the MWD Act- Storage and water management programs- Measuring pension related elements- Measuring other post-employment related elements

Audit results required communications and other matters summary

Communication topic	Response
<p>Significant accounting estimates</p> <ul style="list-style-type: none"> • Net Pension Liability • Other post-employment benefits 	<ul style="list-style-type: none"> - Management evaluates the assumptions used in the GASB 68 actuarial valuation for Pension and GASB 75 actuarial valuation for OPEB. - Significant assumptions include the following: <ul style="list-style-type: none"> a. Pension - the long-term expected rate of return, discount rate, mortality, cost of living adjustments and inflation rates b. OPEB –mortality, inflation rates, health care cost trend rates, long-term expected rate of return and discount rates

Audit results required communications and other matters summary

Communication topic	Response
<p>Significant financial statement disclosures</p>	<p>Significant financial statement disclosures relate to:</p> <ul style="list-style-type: none"> • Capital assets, Participation rights including State Water Project – • Cash and Investments – Fair value disclosures • Short term and long-term debt – includes terms and related maturity of debt • Pension – summary of plan benefits, assumptions and net pension liability • OPEB – summary of plan benefits, assumptions and net OPEB liability • Commitments and contingencies – State Water contract commitments, litigation and other matters.

Audit results required communications and other matters summary

Communication topic	Response
New accounting pronouncements	<ul style="list-style-type: none"> • GASB 83, <i>Certain Asset Retirement Obligations</i> • GASB 88, <i>Certain Disclosures Related to Debt</i>
Related Parties	No significant findings and issues noted during the audit
Fraud	No actual or suspected fraud involving management or employees with significant roles in financial reporting
Noncompliance with laws and regulations	No matters to report
Subsequent events	No matters to report

Audit results required communications and other matters summary

Communication topic	Response
Significant difficulties, if any, encountered during the audit	No matters to report
Disagreements with management, if any	No matters to report
Significant findings or issues discussed with management	No matters to report

Audit results required communications and other matters summary

Communication topic	Response
Uncorrected misstatements	<ul style="list-style-type: none"> • Overstatement of current year depreciation expense • Understatement of current year pension expense • Accrual for pending litigation
Corrected misstatements	<ul style="list-style-type: none"> • Reclassification between unrestricted net position and net investment in capital assets
Significant deficiencies on internal control	No matters to report
Management consultation with other accountants	No matters to report

Audit results required communications and other matters summary

Communication topic	Response
Other findings or issues	No matters to report
Written representations	Provided under separate cover
Independence	In our professional judgement, we are independent with respect to MWD, as that term is defined by the professional standards.
Management consultation with other accountants	No matters to report

Enhancing audit quality and transparency

We are providing as supplemental information the following documents:

- **Audit Quality Report**
- **Transparency Report**
- **Transparency Report – Supplement: Assisting Audit Committees in Meeting NYSE Rules on Auditor Communications**

The firm's internal quality control documents are available at

<https://home.kpmg/us/en/home/about/kpmg-quality-and-transparency-report.html>





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