

# Metropolitan Water District of Southern California Discussion with the Audit & Ethics Committee

Audit results for the year ending June 30, 2020

October 27, 2020





# Our commitment to you

We aim to deliver an exceptional client experience by focusing on





# Summary: Audit results required communications and other matters

	Response
Outstanding matters	Pending completion of the Delta Conveyance Design and Construction Joint Power Authority audit
Significant unusual transactions	No significant unusual transactions identified during the audits
Uncorrected audit misstatements	See slide 4
Corrected audit misstatements	See slide 5
Financial presentation and disclosure omissions	No matters to communicate.
Non-GAAP policies and practices	See slide 7
Auditors' reports	See slide 8
Changes to our planned risk assessment and audit strategy	No matters to report
Significant accounting policies and practices	See note 1 to the financial statements
Significant accounting estimates	See slide 7
Significant financial statement disclosures	See notes to the financial statements
Related parties	No matters to report
Going concern	No matters to report
Other information	No matters to report

Audit Results



# Summary: Audit results required communications and other matters

	Response
Subsequent events	No matters to report.
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 misstatement
<b>Independence</b>	See slide 10

Audit Results



# Uncorrected audit misstatements

\$(Million)	
Description of Misstatement	Quantitative effect (Change in net position)
Rollover – Year to date	
<b>Misstatement 1 – Unrecorded liabilities</b> Capital Assets Accounts Payable Operations and maintenance expense Net position – unrestricted	\$ 0.4
<b>Misstatement 2 – Overstatement in other post employment benefits (OPEB) liability</b> Operations and maintenance – Benefits expense OPEB liability	\$ 7.5
<b>Misstatement 3 – San Diego County Water Authority litigation</b> Operations and maintenance expense Accounts Payable	\$ (25.9)
<b>Misstatement 4 – Out of period depreciation expense adjustment</b> Other non-operating revenues, net Net position – unrestricted	\$ (6.3)
<b>Total</b>	<b>\$ (24.3)</b>
<b>Percentage of total revenues</b>	0.0%
<b>Percentage of total expenses</b>	1.7%



# Corrected audit misstatements

(Million)		
Description of misstatement	Debit	Credit
<b>Misstatement 5 – Debt reclassification from non-current to current</b> Long-term debt, net of current portion Current portion of long-term debt	\$ 245.1	\$ 245.1



# 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 2020 financial statements.

Non-GAAP polices and practices	Impact of non-GAAP policies and practices
Non-accrual of litigation related liabilities	See Misstatement 3 on slide 4
Threshold set in recording accruals	See Misstatement 1 on slide 4
Debt classification on variable-rate demand obligations (VRDO)	VRDOs with standby letters of agreements are not presented as current in the statements of net position.

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.



# Auditors' reports

Auditors' report	Entity
Unmodified	Metropolitan Water District of Southern California
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)





# Significant accounting estimates

## Net pension liability and Other post-employment benefits

- Net pension liability and other post-employment benefits (OPEB) are actually determined based on various assumptions.

## Audit findings

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

- Net pension liability is based on the actuarial report issued by CalPERS. OPEB is based on the actuarial report from Bartel Associates, LLC. The liabilities are determined based on the participant data and assumptions in accordance with GASB 68 for Pension and GASB 75 for OPEB.

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

- Pension – Long-term expected rate of return, discount rate, mortality, cost of living adjustments and inflation rates
- OPEB – mortality, inflation rates, health care cost trend rates, long-term expected rate of return and discount rates

### Indicators of possible management bias

- None noted

## Conclusions

- Except for Misstatement 2 at slide 4, no other reportable misstatements noted.



# Independence communications

In connection with our audit of Metropolitan, KPMG and relevant KPMG professionals have complied with relevant ethical requirements regarding independence, as that term is defined by the professional standards.

# Questions?

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

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