



**Board Administrative Committee
December 9, 2019**

SUBJECT:

Receive and Accept the Comprehensive Annual Financial Report and the Assessment District Nos. 5, 7, 8, and 12 Financial Statements of the Eastern Municipal Water District for the Fiscal Year Ended June 30, 2019

BACKGROUND:

On February 24, 2015, the Board authorized a five-year contract with Mayer Hoffman McCann P.C. for professional auditing services for a five-year time period covering Fiscal Year end 2015 continuing through Fiscal Year end 2019. On May 20, 2015, the contract was amended wherein Mayer Hoffman McCann P.C. assigned its rights and obligations under the original agreement to Davis Farr LLP. The agreement covers the following services: an audit of the District's financial statements, review of the annual appropriations limit calculation, an audit of the District's federal awards in accordance with OMB Circular A-133 (Single Audit) and an audit of the Assessment Districts.

An audit of the District's federal awards in accordance with OMB Circular A-133 (Single Audit) was not conducted as the District's federal grant expenditures were below the required \$750,000 threshold. All other services mentioned above have been completed for the Fiscal Year ended June 30, 2019.

Comprehensive Annual Financial Report:

A copy of the District's Comprehensive Annual Financial Report is attached as Exhibit A. Davis Farr LLP has expressed an opinion on the District's financial statements as follows:

“...present fairly, in all material respects, the respective financial position of the District as of June 30, 2019, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.”

The District's Statement of Net Position includes assets, deferred outflows of resources, liabilities and deferred inflows of resources. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,636.8 million (net position) at June 30, 2019, representing an increase of \$87.9 million from Fiscal Year 2018.

The Statement of Revenue, Expenses and Changes in Net Position reflect a surplus, before capital contributions, of \$31.3 million, an increase of \$19.9 million from the prior fiscal year's \$11.4 million surplus before capital contributions.

Some financial highlights for the District include increases in non-operating revenues of \$17.6 million and capital contributions, \$35.3 million. The \$17.6 million increase in non-operating revenues include \$7.7 million in higher water and sewer connection fee revenue and \$9.9 million increase in interest revenue and fair value of investments. The \$35.3 million increase in capital contributions include increases in developer contributions of \$8.5 million and capital grants revenue, \$26.2 million. Several of the large construction projects substantially completed in Fiscal Year 2019 were funded by State grants. Operating expenses decreased \$2.5 million due to the lower cost of purchased water, \$5.8 million and lower general and administrative cost of \$2.5 million, offset by increases in water and sewer operating costs, \$3.1 million. For a complete report of the District's financial results, refer to the Comprehensive Annual Financial Report (Exhibit A).

Davis Farr LLP has provided the Auditor's Communication With Those Charged With Governance required under Government Auditing Standards (Exhibit B). This letter provides information on the scope of the audit, adjustments made or passed, and a notation that there were no disagreements with management about the presentation of the financial statements. Davis Farr LLP has also provided the Report on Internal Control Over Financial Reporting in Accordance with Government Auditing Standards (Exhibit C). This letter communicates one deficiency in internal control related to construction in progress and capitalized interest. District staff response is included in the letter.

Assessment District Audits:

The Assessment District audit (Exhibit D) also resulted in Davis Farr LLP issuing an unmodified opinion on their audit of Assessment District Nos. 5, 7, 8 and 12.

Davis Farr LLP has provided the Auditor's Communication with Those Charged with Governance required under Government Auditing Standards (Exhibit E). This letter provides information on the scope of the audit, adjustments made or passed, and a notation that there were no disagreements with management about the presentation of the financial statements. Davis Farr LLP has also provided the Report on Internal Control Over Financial Reporting in Accordance with Government Auditing Standards (Exhibit C). This letter communicates that there were no internal control deficiencies identified during the course of the audit.

Procedures Applied to Appropriations Limit Worksheets (GANN Letter):

The Independent Accountant's Report on Agreed Upon Procedures Applied to Appropriation Limit Worksheets for the Fiscal Year ended June 30, 2019 (Exhibit F) is attached. These procedures were performed by Davis Farr LLP to assist the District in meeting the requirements of Section 1.5 of Article XIII B of the California Constitution, which states that "The annual calculation of the appropriations limit under this article for each entity of local government shall be reviewed as part of an annual financial audit." There were no exceptions noted on the procedures performed.

FINANCIAL IMPACT:

As noted above

STRATEGIC PLANNING GOAL/OBJECTIVE:

Financial Stability: Enhance and maintain EMWD's strong financial position and credit quality by identifying and implementing specific opportunities to improve underlying financial metrics.

ENVIRONMENTAL IMPACT:

None

RECOMMENDATION:

Receive and accept the Comprehensive Annual Financial Report and the Assessment District Nos. 5, 7, 8, and 12 Financial Statements of the Eastern Municipal Water District for the Fiscal Year Ended June 30, 2019.

SUBMITTED BY:



Paul D. Jones II, P.E., General Manager

12/2/2019



Laura Nomura, Deputy General Manager

11/27/2019

Attachment(s):

Exhibit A - Comprehensive Annual Financial Report

Exhibit B - AU-C Section 260 Letter

Exhibit C - Yellowbook Opinion

Exhibit D - Assessment District FS

Exhibit E - AU-C Section 260 Letter - ADs

Exhibit F - GANN Limit AUP Report

12/11/19 Board Meeting

Staff Contact: Charles Turner, Wilma Garriz