



THE METROPOLITAN WATER DISTRICT  
OF SOUTHERN CALIFORNIA

Office of the General Manager

November 1, 2011

Director James Bowersox  
Director Lynne L. Heidel  
Director Keith Lewinger  
Director Fern Steiner  
San Diego County Water Authority  
4677 Overland Avenue  
San Diego, CA 92123

Dear Directors:

KPMG Audit Report of MWD's Basic Statements for Years ended June 30, 2011 and 2010

This is in response to your letter dated October 25, 2011 to Chairman Foley regarding KPMG's audit report of Metropolitan's Basic Financial Statements for the years ended June 30, 2011 and 2010.

To put our response in context, it is important to understand that the purpose of the audit report is to provide independent assurance that Metropolitan's basic financial statements present fairly, in all material respects, its financial position as of June 30, 2011 and 2010, and the changes in its financial position and its cash flows in conformity with U.S. generally accepted accounting principles (GAAP). KPMG opined that Metropolitan's basic financial statements met those tests.

SDCWA provided six comments, two of which refer to the Comprehensive Annual Financial Report (CAFR) that will be presented to the Board in December 2011, and four relating to the basic financial statements presented at the October 25, 2011 Audit and Ethics Committee meeting.

CAFR Comments:

- 1. Even though not required, presenting budgetary information in the Comprehensive Annual Financial Report (CAFR) would be helpful so it could provide a context for evaluating evidence and understanding of findings, conclusions and recommendations in the report.*

Response: As noted above, Metropolitan's FY 2010/11 CAFR will be issued in December 2011. Staff will consider including supplementary information on the budget.

However, staff reviewed SDCWA's 2010 CAFR and noted that while it includes a one-page budgetary summary in tabular form, it is not clear what evidence can be evaluated, or what findings, conclusions and recommendations are put in context, by the budget information.

2. *In the CAFR transmittal letter it would be prudent to disclose the potential impact of Proposition 26 on revenue policies.*

Response: Metropolitan believes that its water rates and charges are not taxes under Proposition 26 and, therefore, no disclosure is required.

Other Comments:

3. *Future debt service shown on page 13 (Management's Discussion and Analysis) is misleading as it does not include projected future debt issuance. It should be noted that it does not include future debt issuance.*

Response: We will consider adding a note that the bar chart does not include projected future debt issues. Generally, the Management, Discussion and Analysis (MD&A) section of the report does not include projections or forecasts. Governmental Accounting Standards Board Statement 34, paragraph 8 states "MD&A should provide an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions." Furthermore, on page 25 of SDCWA's 2010 CAFR, the table showing SDCWA's future long-term debt service requirements does not include such a note. Metropolitan's and SDCWA's adopted budgets are generally a better source and provide a better context for projected future debt issuance.

4. *The Bay Delta discussion should disclose the potential costs to Metropolitan of the Bay Delta Conservation Plan.*

Response: Metropolitan's share of the projected fixed costs of the State Water Project (SWP) during the next five years as currently estimated by the State are provided, with the statement that the estimates are subject to future increases or decreases resulting from changes in planned facilities, refinements in cost estimates, and inflation. Bay-Delta Conservation Plan planning costs currently anticipated to be payable in the next five years are included in the estimates provided. Given the difficulty in estimating additional BDCP costs and the fact that no commitment to BDCP facilities may be made until after completion of an environmental review, anticipated to occur more than a year after issuance of the 2011 financial statements, no potential additional costs were included in the estimates.

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5. *SDCWA litigation disclosure should disclose that Metropolitan is required to escrow the disputed funds.*

Response: The amount held for this purpose at June 30, 2011 totaled \$12.7 million and was not deemed material enough to be disclosed. However, we will consider disclosing the amount held in escrow in future reports.

6. *The discussion on page 69 should disclose that there is an escrow account for the SDCWA litigation and impact on reserve fund minimums.*

Response: The amount held for this purpose at June 30, 2011 totaled \$12.7 million and was not deemed material enough to be disclosed. However, we will consider disclosing the amount held in escrow in future reports.

Sincerely,

A handwritten signature in black ink, appearing to read "Gary Breaux". The signature is stylized and cursive, with a long horizontal line extending to the left.

Gary Breaux  
Assistant General Manager and Chief Financial Officer

GB:jg

cc: MWD Board of Directors