FINANCE AND HUMAN RESOURCES COMMITTEE

June 9, 2020 - 3:30 PM

In an effort to prevent the spread of COVID-19 and in accordance with Governor Newsom's Executive Order N-25-20 and N-29-20, this meeting is being conducted via teleconference. There will be no public location for attending this meeting in person. Members of the public may listen and provide public comment telephonically.

Anyone wishing to join the meeting may do so using the following information:

DIAL: 1-510-338-9438 and enter ACCESS CODE: 126 808 0105##
You may also join via webex.com: link

MEETING# 126 808 0105 and PASSWORD: EVWD2020
31111 Greenspot Road, Highland CA 92346

AGENDA

CALL TO ORDER
PLEDGE OF ALLEGIANCE
PUBLIC COMMENTS

NEW BUSINESS
2. Review Board Portal
3. Discuss Upcoming Finance and Human Resources Committee Meetings

ADJOURN

PLEASE NOTE:

Pursuant to Government Code Section 54954.2(a), any request for a disability-related modification or accommodation, including auxiliary aids or services, that is sought in order to participate in the above-agendized public meeting should be directed to the District Clerk at (909) 885-4900 at least 72 hours prior to said meeting.
STAFF REPORT

Agenda Item #1.
Meeting Date: June 9, 2020
Discussion Item

To: FINANCE AND HUMAN RESOURCES COMMITTEE
From: Chief Financial Officer


RECOMMENDATION:

Staff recommends that the Finance and Human Resources Committee (Committee) review the Engagement Letter and planning document from CliftonLarsonAllen, LLP (CLA) for the preparation of the Audit of Financials for EVWD for the year ended June 30, 2020.

BACKGROUND / ANALYSIS:

Staff has placed this item on the Committee meeting agenda in order to reintroduce the principals from the District’s audit firm. In addition, as auditing is a review of managements’ activities, best practices dictate that a line of communication be established between the District auditors and Governing Board.

Therefore, attached for the Committee to review is the Engagement Letter from CLA to provide auditing services to EVWD for the fiscal year ended June 30, 2020. The Engagement Letter explains what the objectives of these services will be and describe the procedures that will be used to perform their work. Also attached is the firm’s ‘Overall Plan to Accomplish the Audit document which provides insight as to what audit services will be provided during the audit, in accordance with, generally accepted accounting principles (GAAP).

Auditing Standards require these documents be communicated to those charged with Governance and CLA is present to answer any questions.

AGENCY GOALS AND OBJECTIVES:

Goal and Objectives II - Maintain a Commitment to Sustainability, Transparency, and Accountability

a) Practice Transparent and Accountable Fiscal Management

REVIEW BY OTHERS:

This agenda item has been reviewed by the Finance Department.
FISCAL IMPACT

There is no fiscal impact associated with this agenda item.

ATTACHMENTS:

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<td>Backup Material</td>
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East Valley Water District

Pre-audit Planning Meeting
June 9, 2020
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Emerging Issues
Key Issues and Challenges Facing State & Local Government Organizations

- Cybersecurity and data breaches
- COVID-19
- New Accounting Standards
CLA Service during COVID-19

Our “New Normal”: On-site vs Off-site work

A different approach
SAA is unlike any conventional audit process. SAA does not depend on physical location. It reduces the time our professionals spend, creates fewer disruptions, enables more efficient use of resources (yours and ours), and allows for more impactful interactions with your people.

Insights through analytics
CLA uses strategic data analysis to examine whole data sets to gain a deeper understanding of your organization. Insights that were once impossible can now come into focus to help you measure performance, enhance strategic decision making, and understand your competitive opportunities.

Effective technology
CLA embraces technologies that help solve client problems and create a seamless experience. Assurance Information Exchange (AIE) is a web-based application, developed by CLA, to digitally request and obtain audit documents through a secure and efficient online portal.
Accounting Standard Changes

Statement No. 84 – Fiduciary Activities:
  • Postponement to fiscal year 2020-21

Statement No. 87 – Leases:
  • Postponement to fiscal year 2021-22

Statement No. 90 – Majority Equity Interests:
  • Postponement to fiscal year 2020-21

Statement No. 91 – Conduit Debt Obligations:
  • Postponement to fiscal year 2022-23

Statement No. 92 – Omnibus 2020:
  • Postponement to fiscal year 2021-22
Accounting Standard Changes

Statement No. 93 – Replacement of Interbank Offered Rates (IBOR):
• Postponement to fiscal year 2021-22

Statement No. 94 – Public-Private and Public-Public Partnerships and Availability Payment Arrangements:
• Effective fiscal year 2022-23

Statement No. 95 – Postponement of the Effective Dates of Certain Authoritative Guidance:
• Immediately effective
Your Service Team
CLA Service Team

We are committed to providing top quality service throughout the engagement and throughout the year. The team that will serve the audit is made up of individuals dedicated to state & local government – Water District districts industry.

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<tr>
<th>Engagement Team Member</th>
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<tr>
<td>Renee Graves - Principal</td>
<td>Principal in-charge</td>
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<tr>
<td>Daphne Liu - Director</td>
<td>Director in-charge</td>
</tr>
<tr>
<td>Melissa Suraya - Senior</td>
<td>Audit in-charge</td>
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Your Service Plan
### Scope and Deliverables

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<th>Audit Scope</th>
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<td>• Audit the basic financial statements included in the Comprehensive Annual Financial Report for East Valley Water District as of June 30, 2020</td>
<td>• Opinion on the basic financial statements and supplementary information included in the Comprehensive Annual Financial Report for the Year Ended June 30, 2020</td>
<td>• Preparation and transmission of the State Controller’s Annual Financial Transaction Report for California Special Districts.</td>
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<td>• Federal Data Collection Form SF-SAC if applicable</td>
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- Board Reporting Packet: Required communications
- Independent auditors’ report on internal control over financial reporting and on compliance and other matters.
- Independent auditors’ reports on compliance for major Federal Programs if applicable
We utilize a **collaborative approach**, which includes seeking input from management and governance, to develop an audit plan that focuses on areas of **risk** and areas of **significance to stakeholders** of your Organization.

Any items of significance, warranting communication with governance, that arise throughout the audit process will be promptly communicated.
## Responsibilities

### East Valley Water District

### Governance
- Strategic Direction
- Accountability, including financial reporting

### Management
- Internal Controls
- Accounting Policies
- Management Decisions
- Fair Presentation of Financial Statements
- Programs to Prevent and Detect Fraud

### Independent Auditor
- Opinion on Fair Presentation of Financial Statements
- Audit in Accordance with GAAS
- Reasonable, not Absolute Assurance
- Understanding of Internal Controls
- Risk Based Audit Approach
**Audit Risk** = the risk of an undetected material misstatement due to error or fraud.

Preliminary Risk Assessment to reduce the audit risk to an appropriately low level.

- **Significant or Fraud Risks** (Other Risks Deemed Significant or Fraudulent in Nature)
- **Control Risk** (Internal Controls Fail to Prevent or Detect a Material Misstatement)
- **Inherent Risk** (Due to the Nature of the Account)
- **Detection Risk** (Audit Procedures Fail to Detect a Material Misstatement)
- **Revenue Recognition**
- **Management Override of Controls**
- **Cash/Revenue**
- **Capital Assets**
- **Estimates/Valuation**
- **OPEB & Pension**
- New tests annually to avoid familiarity with audit process
- Use of data analytics on large volumes of data
Governance Input

As independent auditors, we work for governance and work with management to accomplish the audit. Your input is valued as we develop our audit plan and approach.
Audit Committee Input

Areas of Concern?

- Any concerns or items you want to make sure we incorporate into our audit plan?
- Are there specific transactions, general ledger accounts, etc. that you feel we should prioritize when considering our audit procedures to be performed?

Fraud?

- Are you aware of any fraud within the organization during the year? Fraud could include fraudulent financial reporting or misappropriation of the organization’s assets.

Other Items?
Appendix

• Resources
• About CLA
Resources

Articles, Webinars, and Tools
www.claconnect.com

Click to Learn More About Other Ways CLA Can Help You Meet Your Goals

- Financial Department Assessments – People, Processes and Tools
- IT Security Services
- Enterprise Risk Assessments
- Grant Compliance
About CLA

Firm stats
• More than 60 years of quality, service, and experience
• $1.1 billion in revenue
• More than 120 locations across the United States

Our clients
• Unprecedented emphasis on serving privately held businesses and their owners, as well as nonprofits and governmental entities
• Serving more than 150,000 clients
• Primary industries served include agribusiness, construction and real estate, commercial services, cooperatives, dealerships, federal government, financial institutions, government contractors, health care, higher education, manufacturing and distribution, nonprofit, professional services, and state and local government including K-12 Education.
• Service areas include wealth advisory, outsourcing, and public accounting (audit, tax, and consulting)

Our people
• More than 6,100 professionals, including 700+ principals
• More than 2,590 CPAs
• A career building and "Best Place to Work" firm
You don’t have to do it alone

CLA: The Premier Resource for State and Local Government Organizations and their Leaders
Renee Graves, CPA CGFM
Principal
Renee.Graves@claconnect.com
626-387-8213

Daphne Liu, CPA
Director
Daphne.Liu@claconnect.com
626-857-7300 ext. 78244
April 6, 2020

East Valley Water District
Mr. Brian Tompkins
31111 Greenspot Road
Highland, CA 92346

Dear Mr. Tompkins:

We are pleased to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the audit and nonaudit services CliftonLarsonAllen LLP (“CLA,” “we,” “us,” and “our”) will provide for East Valley Water District (“EVWD”, “you,” “your,” or “the entity”) for the year ended June 30, 2020.

Renee Graves is responsible for the services provided to you. She will be assisted by Daphne Liu, who is responsible for the performance of the audit engagement.

Audit services
We will audit the basic financial statements included in the Comprehensive Annual Financial Report, as of and for the year ended June 30, 2020, and the related notes to the financial statements.

The Governmental Accounting Standards Board (GASB) provides for certain required supplementary information (RSI) to accompany the entity’s basic financial statements. The following RSI will be subjected to certain limited procedures, but will not be audited.

1. Management’s discussion and analysis.
2. GASB-required supplementary pension and OPEB information under modified reporting.

We will also evaluate and report on the presentation of the supplementary information accompanying the financial statements in relation to the financial statements as a whole.

Nonaudit services
We will also provide the following nonaudit services:

- Preparation of a trial balance.
- Preparation of adjusting journal entries.
- Preparation and transmission of the State Controller’s Annual Financial Transaction Report for California Special Districts.
Audit objectives

The objective of our audit is the expression of an opinion about whether your basic financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS) and the standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and will include tests of your accounting records and other procedures we consider necessary to enable us to express such an opinion. We will apply certain limited procedures to the RSI in accordance with U.S. GAAS. However, we will not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. We will also perform procedures to enable us to express an opinion on whether the supplementary information other than RSI accompanying the financial statements is fairly stated, in all material respects, in relation to the financial statements as a whole.

We will issue a written report upon completion of our audit of your financial statements. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion, add an emphasis-of-matter or other-matter paragraph(s), or withdraw from the engagement. If our opinion is other than unmodified, we will discuss the reasons with you in advance. If circumstances occur related to the condition of your records, the availability of sufficient, appropriate audit evidence, or the existence of a significant risk of material misstatement of the financial statements caused by error, fraudulent financial reporting, or misappropriation of assets, which in our professional judgment prevent us from completing the audit or forming opinions on the financial statements, we retain the right to take any course of action permitted by professional standards, including declining to express an opinion or issue a report, or withdrawing from the engagement.

We will also provide a report (which does not include an opinion) on internal control related to the financial statements and on compliance with the provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements, as required by Government Auditing Standards. The report on internal control over financial reporting and on compliance and other matters will include a paragraph that states (1) that the purpose of the report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance, and (2) that the report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity’s internal control and compliance. The paragraph will also state that the report is not suitable for any other purpose. If during our audit we become aware that the entity is subject to an audit requirement that is not encompassed in the terms of this engagement, we will communicate to management and those charged with governance that an audit conducted in accordance with U.S. GAAS and the standards for financial audits contained in Government Auditing Standards may not satisfy the relevant legal, regulatory, or contractual requirements.

Auditor responsibilities, procedures, and limitations

We will conduct our audit in accordance with U.S. GAAS and the standards for financial audits contained in Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements as a whole are free from material misstatement, whether due to fraud or error. An audit involves performing procedures to obtain sufficient appropriate audit evidence about the amounts and disclosures in the basic financial statements. The procedures
selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

There is an unavoidable risk, because of the inherent limitations of an audit, together with the inherent limitations of internal control, that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with U.S. GAAS and Government Auditing Standards. Because we will not perform a detailed examination of all transactions, material misstatements, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity, may not be detected. Because the determination of abuse is subjective, Government Auditing Standards do not expect auditors to provide reasonable assurance of detecting abuse.

In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform the appropriate level of management and those charged with governance of any material errors, fraudulent financial reporting, or misappropriation of assets that come to our attention. We will also inform the appropriate level of management and those charged with governance of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention.

In making our risk assessments, we consider internal control relevant to the entity’s preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting fraud or errors that are material to the financial statements and to preventing and detecting misstatements resulting from noncompliance with provisions of laws, regulations, contracts, and grant agreements that have a material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to Government Auditing Standards.

An audit is not designed to provide assurance on internal control or to identify deficiencies, significant deficiencies, or material weaknesses in internal control. However, we will communicate to you in writing significant deficiencies or material weaknesses in internal control relevant to the audit of the basic financial statements that we identify during the audit that are required to be communicated under AICPA professional standards and Government Auditing Standards.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the entity’s compliance with the provisions of laws, regulations, contracts, and grant agreements that have a material effect on the financial statements. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to Government Auditing Standards.
We will include in our report on internal control over financial reporting and compliance relevant information about any fraud; noncompliance with provisions of laws, regulations, contracts, or grant agreements; or abuse that may have occurred that are required to be communicated under Government Auditing Standards.

Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Management responsibilities

Our audit will be conducted on the basis that you (management and, when appropriate, those charged with governance) acknowledge and understand that you have certain responsibilities that are fundamental to the conduct of an audit.

You are responsible for the preparation and fair presentation of the financial statements, RSI and statistical section in accordance with U.S. GAAP. Management’s responsibilities include the selection and application of accounting principles; recording and reflecting all transactions in the financial statements; determining the reasonableness of significant accounting estimates included in the financial statements; adjusting the financial statements to correct material misstatements; and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design, implementation, and maintenance of effective internal control, including evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. You are responsible for the design, implementation, and maintenance of internal controls to prevent and detect fraud; assessing the risk that the financial statements may be materially misstated as a result of fraud; and for informing us about all known or suspected fraud affecting the entity involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for implementing systems designed to achieve compliance with applicable laws and regulations and the provisions of contracts and grant agreements; identifying and ensuring that the entity complies with applicable laws, regulations, contracts, and grant agreements; and informing us of all instances of identified or suspected noncompliance whose effects on the financial statements should be considered. You are responsible for taking timely and appropriate steps to remedy any fraud; noncompliance with provisions of laws, regulations, contracts, or grant agreements; or abuse that we may report.

You are responsible for ensuring that management is reliable and for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters, and for the accuracy and completeness of that information, and for ensuring the information is reliable and properly reported; (2) additional information that we may request for the purpose of the audit; and (3) unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence. You agree to inform us of events occurring or facts discovered subsequent to the date of the financial statements that may affect the financial statements.
Management is responsible for the preparation of the supplementary information in accordance with U.S. GAAP. You agree to include our report on the supplementary information in any document that contains, and indicates that we have reported on, the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon or make the audited financial statements readily available to users of the supplementary information no later than the date the supplementary information is issued with our report thereon. You agree to provide us written representations related to the presentation of the supplementary information.

Management is responsible for providing us with a written confirmation concerning representations made by you and your staff to us in connection with the audit and the presentation of the basic financial statements and RSI. During our engagement, we will request information and explanations from you regarding, among other matters, the entity's activities, internal control, future plans, specific transactions, and accounting systems and procedures. The procedures we will perform during our engagement and the conclusions we reach as a basis for our report will be heavily influenced by the representations that we receive in the representation letter and otherwise from you. Accordingly, inaccurate, incomplete, or false representations could cause us to expend unnecessary effort or could cause a material fraud or error to go undetected by our procedures. In view of the foregoing, you agree that we shall not be responsible for any misstatements in the entity's financial statements that we may fail to detect as a result of misrepresentations made to us by you.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the “Audit objectives” section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or other engagements or studies. You are also responsible for providing management’s views on our current findings, conclusions, and recommendations, as well as your planned corrective actions for the report, and for the timing and format for providing that information.

**Responsibilities and limitations related to nonaudit services**

For all nonaudit services we may provide to you, management agrees to assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, and/or experience to understand and oversee the services; evaluate the adequacy and results of the services; and accept responsibility for the results of the services. Management is also responsible for ensuring that your data and records are complete and that you have received sufficient information to oversee the services.

The responsibilities and limitations related to the nonaudit services performed as part of this engagement are as follows:

- We will prepare a trial balance for use during the audit. Our preparation of the trial balance is limited to formatting information into a working trial balance based on management's chart of accounts or general ledger. You will be required to review, approve, and accept responsibility for the trial balance.

- We will propose adjusting journal entries as needed. You will be required to review and approve those entries and to understand the nature of the changes and their impact on the financial statements.
• We will prepare the Annual Financial Transactions Report for California Special Districts as required by the State Controller’s Office. You will be required to review and approve the report prior to its transmission to the State Controller’s Office.

These nonaudit services do not constitute an audit under Government Auditing Standards and such services will not be conducted in accordance with Government Auditing Standards.

Use of financial statements
The financial statements and our report thereon are for management’s use. If you intend to reproduce and publish the financial statements and our report thereon, they must be reproduced in their entirety. Inclusion of the audited financial statements in a document, such as an annual report or an offering document, should be done only with our prior approval of the document. You are responsible to provide us the opportunity to review such documents before issuance.

If the parties (i.e., you and CLA) agree that CLA will not be involved with your official statements related to municipal securities filings or other offering documents, we will require that any official statements or other offering documents issued by you with which we are not involved clearly indicate that CLA is not involved with the contents of such documents. Such disclosure should read as follows:

CliftonLarsonAllen LLP, our independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. CliftonLarsonAllen LLP also has not performed any procedures relating to this offering document.

With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your website or submitted on a regulator website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in those sites or to consider the consistency of other information in the electronic site with the original document.

We may issue preliminary draft financial statements to you for your review. Any preliminary draft financial statements should not be relied on or distributed.

Engagement administration and other matters
We expect to begin our audit interim work in April 2020 and our final field work in September 2020. We understand that your employees will prepare all confirmations, account analyses, and audit schedules we request and will locate any documents or invoices selected by us for testing. A list of information we expect to need for our audit and the dates required will be provided in a separate communication.

We will provide copies of our reports to the entity; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

The audit documentation for this engagement is the sole and exclusive property of CLA and constitutes confidential and proprietary information. However, subject to applicable laws and regulations, audit
documentation and appropriate individuals will be made available upon request and in a timely manner to a regulator or its designee, the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of CLA personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of seven years after the report release date or for any additional period requested by the regulator.

CLA will not disclose any confidential, proprietary, or privileged information of the entity to any persons without the authorization of entity management or unless required by law. This confidentiality provision does not prohibit us from disclosing your information to one or more of our affiliated companies in order to provide services that you have requested from us or from any such affiliated company. Any such affiliated company shall be subject to the same restrictions on the use and disclosure of your information as apply to us.

Our engagement and responsibility end on delivery of our signed report. Any additional services that might be requested will be a separate, new engagement. The terms and conditions of that new engagement will be governed by a new, specific engagement letter for that service.

*Government Auditing Standards* require that we make our most recent external peer review report publicly available. The report is posted on our website at www.CLAconnect.com/Aboutus/.

**Mediation**

Any disagreement, controversy, or claim ("Dispute") that may arise out of any aspect of our services or relationship with you, including this engagement, shall be submitted to non-binding mediation by written notice ("Mediation Notice") to the other party. In mediation, we will work with you to resolve any differences voluntarily with the aid of an impartial mediator.

The mediation will be conducted as specified by the mediator and agreed upon by the parties. The parties agree to discuss their differences in good faith and to attempt, with the assistance of the mediator, to reach an amicable resolution of the Dispute.

Each party will bear its own costs in the mediation. The fees and expenses of the mediator will be shared equally by the parties.

Any Dispute will be governed by the laws of the state of California, without giving effect to choice of law principles.

**Time limitation**

The nature of our services makes it difficult, with the passage of time, to gather and present evidence that fully and fairly establishes the facts underlying any Dispute that may arise between the parties. The parties agree that, notwithstanding any statute or law of limitations that might otherwise apply to a Dispute, including one arising out of this agreement or the services performed under this agreement, for breach of contract or fiduciary
duty, tort, fraud, misrepresentation or any other cause of action or remedy, any action or legal proceeding by you against us must be commenced within twenty-four (24) months ("Limitation Period") after the date when we deliver our final audit report under this agreement to you, regardless of whether we do other services for you relating to the audit report, or you shall be forever barred from commencing a lawsuit or obtaining any legal or equitable relief or recovery.

The Limitation Period applies and begins to run even if you have not suffered any damage or loss, or have not become aware of the existence or possible existence of a Dispute.

**Fees**

Our professional fees will be billed based on the time involved and the degree of responsibility and skills required. We will also bill for expenses including internal and administrative charges. Based on our preliminary estimates, the total fees and expenses for the engagement should approximate $19,800 for the audit, $850 for preparation and transmission of the State Controller's Annual Financial Transaction Report for California Special Districts, and $1,500 for single audit examination of all federal grants if applicable. These estimates are based on anticipated cooperation from your personnel and their assistance with preparing confirmations and requested schedules. If the requested items are not available on the dates required or are not accurate, the estimated fee for services will likely be higher. If unexpected circumstances require significant additional time, we will advise you before undertaking work that would require a substantial increase in the fee estimate. Our invoices for these fees will be rendered as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes 30 days or more overdue and will not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed even if we have not issued our reports. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket expenditures through the date of termination.

**Other fees**

You also agree to compensate us for any time and expenses, including time and expenses of legal counsel, we may incur in responding to discovery requests or participating as a witness or otherwise in any legal, regulatory, or other proceedings that we are asked to respond to on your behalf.

**Finance charges and collection expenses**

You agree that if any statement is not paid within 30 days from its billing date, the unpaid balance shall accrue interest at the monthly rate of one and one-quarter percent (1.25%), which is an annual percentage rate of 15%. In the event that any collection action is required to collect unpaid balances due us, reasonable attorney fees and expenses shall be recoverable.

**Subcontractors**

CLA may, at times, use subcontractors to perform services under this agreement, and they may have access to your information and records. Any such subcontractors will be subject to the same restrictions on the use of such information and records as apply to CLA under this agreement.
Agreement

We appreciate the opportunity to be of service to you and believe this letter accurately summarizes the significant terms of our engagement. This letter constitutes the entire agreement regarding these services and supersedes all prior agreements (whether oral or written), understandings, negotiations, and discussions between you and CLA. If you have any questions, please let us know. Please sign, date, and return a copy of this letter to us to indicate your acknowledgment and understanding of, and agreement with, the arrangements for our audit of your financial statements including the terms of our engagement and the parties’ respective responsibilities.

Sincerely,

CliftonLarsonAllen LLP

Renee S. Graves, CPA, CGFM
Principal
626-857-7300
Renee.Graves@CLAconnect.com

Response:
This letter correctly sets forth the understanding of East Valley Water District.

Authorized governance signature: ________________________________
Title: __________________________________________________________
Date: __________________________________________________________

Authorized management signature: ________________________________
Title: Chief Financial Officer
Date: April 13, 2020
May 8, 2020

Finance Committee
East Valley Water District
Highland, California

We are engaged to audit the financial statements of East Valley Water District as of and for the year ended June 30, 2020. Professional standards require that we communicate to you the following information related to our audit. We will contact you to schedule a meeting to discuss this information since a two-way dialogue can provide valuable information for the audit process.

**Our responsibility under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards**

Our responsibilities, as described by professional standards, are as follows:

- Forming and expressing opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

- Considering, as part of our financial statement audit, the entity’s internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not to provide any assurance on the effectiveness of the entity’s internal control over financial reporting.

- Planning and performing the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements as a whole are free from material misstatement.

- Performing, as part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, tests of the entity’s compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests is not to provide an opinion on compliance with such provisions.

- Communicating significant matters related to the financial statement audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

- Communicating matters required by law, regulation, agreement, or other requirements.

Our audit of the financial statements does not relieve you or management of your responsibilities.

With respect to the required supplementary information (RSI) accompanying the financial statements, we will make certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the
RSI. We will compare the RSI for consistency with management’s responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we will not express an opinion or provide any assurance on the RSI.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. We will make certain inquiries of management and evaluate the form, content, and methods of preparing the information to determine whether the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We will compare and reconcile the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Our auditors’ opinions, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document. Our responsibility for other information in documents containing the entity’s financial statements and our auditors’ report does not extend beyond the financial information identified in the report. We have no responsibility for determining whether such other information is properly stated and do not have an obligation to perform any procedures to corroborate other information contained in such documents. We are required by professional standards to read the other information in order to identify material inconsistencies between the audited financial statements and the other information because the credibility of the audited financial statements and our report may be undermined by material inconsistencies between the audited financial statements and other information.

**Planned scope and timing of the audit**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested.

Our audit of the financial statements will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. We will generally communicate our significant findings at the conclusion of the audit. However, some matters may be communicated sooner, particularly if significant difficulties are encountered during the audit where assistance is needed to overcome the difficulties or if the difficulties may lead to a modified opinion. We will also communicate any internal control related matters that are required to be communicated under professional standards.

We expect to begin our audit in April 2020 and issue our report in October 2020.
Other planning matters

Recognizing the importance of two-way communication, we encourage you to provide us with information you consider relevant to the audit. This may include, but is not limited to, the following items:

- Your views about the following matters:
  - The appropriate person(s) in the entity's governance structure with whom we should communicate.
  - The allocation of responsibilities between those charged with governance and management.
  - The entity's objectives and strategies and the related business risks that may result in material misstatements.
  - Matters you believe warrant particular attention during the audit and any areas for which you request additional procedures to be undertaken.
  - Significant communications with regulators.
  - Other matters you believe are relevant to the audit of the financial statements.

- The attitudes, awareness, and actions of those charged with governance concerning (a) the entity’s internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control, and (b) the detection or the possibility of fraud.

- The actions of those charged with governance in response to developments in law, accounting standards, corporate governance practices, and other related matters.

- The actions of those charged with governance in response to previous communications with the auditor.

- Your understanding of the risks of fraud and the controls in place to prevent and detect fraud.

- How you oversee the entity’s (1) compliance with laws, regulations, and provisions of contracts and grant agreements (2) policies relative to the prevention of noncompliance and illegal acts, and (3) use of directives (for example, a code of ethics) and periodic representations obtained from management-level employees about compliance with laws, regulations, and provisions of contracts and grant agreements.

- Whether you are aware of any noncompliance with laws, regulations, contracts, and grant agreements, including measures taken to address the noncompliance.

New Governmental Accounting Standards

- **Statement No. 84 – Fiduciary Activities** (implementation may be postponed)
  The objectives of the statement are to improve guidance regarding the recognition of fiduciary activities for accounting and financial reporting purposes by establishing criteria for identifying fiduciary activities of all state and local governments. The statement is effective for the fiscal year 2019-20.
• **Statement No. 87 – *Leases* (implementation may be postponed)**
  The objectives of the statement are to improve the accounting and financial reporting for leases by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. Inflows of resources or outflows of resources will be recognized based on the payment provisions of the contract. The statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The statement is effective for the fiscal year 2020-21.

• **Statement No. 91 – *Conduit Debt Obligations***
  The objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity by clarifying the existing definitions of the issuer, establishing standards for accounting and financial reporting of additional arrangements associated with conduit debt obligations, and improving required note disclosures. The statement is effective for the fiscal year 2021-22.

• **Statement No. 92 – *Omnibus 2020* (implementation may be postponed)**
  The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The statement addresses a variety of topics. Some requirements are effective upon issuance of the statement and other requirements are effective for the fiscal year 2020-21.

• **Statement No. 93 – *Replacement of Interbank Offered Rates (IBOR)***
  As a result of global reference rate reform, the London Interbank Offered rate (LIBOR) is expected to cease to exist in its current form at the end of 2021. The objective of this statement is to address accounting and financial reporting implications that result from replacement of an IBOR. The statement is effective for the fiscal year 2020-21.

• **Statement No. 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements***
  Addresses issues related to public-private and public-public partnership arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. The statement is effective for the fiscal year 2022-23.

**New Government Auditing Standards (GAGAS)**

The U.S. Governmental Accountability Office (GAO) issued the 2018 version of *Government Auditing Standards* (GAGAS), the “Yellow Book”, in July 2018 which are effective for financial audits beginning for fiscal years ending June 30, 2020. The most significant changes include expanding the concept of “abuse” to include “waste”, which is defined as the act of using or expending resources carelessly, extravagantly, or to no purpose. Auditors are not responsible for designing their tests to detect waste or abuse, but they must
consider whether the discovery of waste or abuse may indicate fraud or noncompliance with the provisions of laws, regulations, contracts, and grant agreements, and whether possible internal control deficiencies exist that should be reported.

* * *

This communication is intended solely for the information and use of the Board of Director and management of East Valley Water District and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

CliftonLarsonAllen LLP

Renee S. Graves, CPA, CGFM
Principal
626-857-7300
Renee.Graves@CLAconnect.com