

Communication to Governance —→

# SAN DIEGO COUNTY WATER AUTHORITY

Fiscal Year Ended June 30, 2026



Presented by: Shannon Ayala, CPA | PARTNER



# Planning the 25/26 Audit

- Scope and Timing of the Audit
  - Audit Engagement Letter
- Identification of Audit Risk
  - Development of Audit Plan
- Communication to those in Governance



# Scope and Timing

## Scope

Scope of work will include the single audit of federal expenditures

## Purpose

- Express an opinion that the financial statements are free of material misstatement
- Review compliance with Uniform Guidance for federal expenditures

## Timing

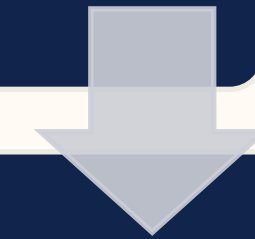
- Interim fieldwork – April 20-24, 2026
- Single audit testing – July 2026
- Final fieldwork – August 24-September 4, 2026



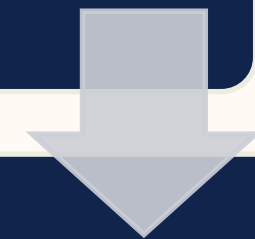


# Auditor Responsibilities

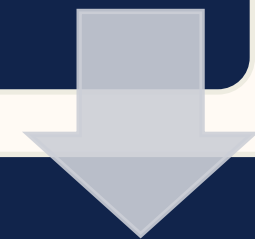
Identify and assess the risk of material misstatement



Obtain an understanding of internal controls



Evaluate accounting policies and estimates



Perform test of compliance with laws and regulations



# Management Responsibilities

Preparation and fair presentation of the financial statements

Design and implementation of internal controls

Inform us of any known or suspected fraud

Accuracy and completeness of information provided



# Risk Areas Identified by Auditors

- Management override of controls
- Revenue recognition
- Capital assets and construction in progress
- Compliance with Uniform Guidance for federal expenditures
- New accounting standard– GASB 103
- Unpredictability test



# Addressing the Risks

## Management Override of Controls

- Testing of manual and non-routine journal entries
- Review of significant or unusual transactions
- Evaluation of estimates and judgements

## Revenue Recognition

- Confirm revenue and receivables with member agencies
- Review contract terms
- Test revenue transactions across the year

## Capital Assets & Construction in Progress

- Test capital asset additions and disposals, including CIP
- Review capital vs. expense classification
- Verification CIP relates to active and approved projects





# Addressing the Risks

## Single Audit

- Evaluation internal controls for each applicable compliance area
- Test compliance with applicable areas for each major program

## New Accounting Standard – GASB 103

- Review Management Discussion & Analysis to ensure required information is included and analysis is in accordance with accounting standard
- Perform and independent analysis of revenues and expenses to ensure they are properly classified in accordance with the new accounting standard

Communication to Governance

# Questions?

Fiscal Year Ended June 30, 2026



+760.536.5140

[sayala@davisfarr.com](mailto:sayala@davisfarr.com)

1903 Wright Place, Suite 280 | Carlsbad , CA 92008





San Diego County  
Water Authority

**Audit Committee Presentation**  
**April 2, 2026**  
**Controller, Chris Woidzik**

# Agenda

- **Audit Committee Responsibilities**
- **FY 2026 Work Plan Calendar**
- **Single Audit**
- **GASB 103 Implementation & FY 2025 Proforma FS**
- **Audit Committee 2nd Meeting Discussion Items**

# Audit Committee Responsibilities

The Audit Committee is a standing advisory committee responsible for the following matters:

## Schedule

1. Recommending selection of the independent auditor or auditing firm, including participation in the selection process.

N/A for FY26  
Completed in FY23

2. Oversight of the audit contract and annual audit.

Three Yr. Contract: FY's 24-26  
Two 1-Year Options: FY27 & FY28  
Fee: Audit \$58,800; Single Audit \$4,010

3. Oversight of supplemental audits, or agreed upon procedures, including audits of member agency obligations, within the scope of the audit contract as the committee determines are necessary or appropriate.

None scheduled

# Audit Committee Responsibilities, continued

Administrative Code  
Section 2.00.066

## Schedule

4. Review of the annual audit, including all portions of any associated Annual Comprehensive Financial Report (ACFR), at one or more public meetings and provision of a report of recommendations to the Board based upon the review.\*

Mid-October  
3rd Meeting

5. Preparation of an annual report to the Board summarizing its activities, actions, and recommendations, which report may be combined with the report of recommendations on the annual audit.

Late October  
3rd Meeting

\* Proposed Administrative Code Change:

*The DRAFT ACFR will also be provided to the Board at the same time as the Audit Committee for review and any feedback will be shared with the Committee.*

# FY 2026 Audit Work Plan Calendar

- **Audit Committee Meetings & Work Plan**

- April 2 - Audit Commencement Matters
- September 24 - Audits Status & Timeline Update
- October 15 - 27 - ACFR Draft Review
- October 29 - Presentation on ACFR & Audit Results
- **November 19 - ACFR & Annual Report to Board**

- **Year-end Close & Audit Preparation**

- July 22 - Accounts Payable & all Expenses Recorded
- July 30 - Accounts Receivable & all Revenues Recorded
- August 3 - Capital Asset Activities Recorded
- **August 3 - General Ledger FY 2026 Closed**

- **Financial Statements & ACFR Development**

- August 4 - Preliminary Trial Balance
- August 21 - Draft Financial Statements, Footnotes and all Audit Schedules to Auditors
- September 3 - June (FY 2026) Final Controller's Report Submitted
- **September 14 - Full ACFR Provided to Auditors**
- September 14 - Continuing Disclosures Provided to Auditors

- **Davis Farr LLP Audit Process & Fieldwork**

- April 20 - 23 - Interim Fieldwork
- July 22 - 24 - Single Audit Procedures
- Aug 24 - Sep 4 - Year-end Fieldwork
- September 14 - ACFR Draft Review
- **September 30 - ACFR Finalized & Audit Opinion Issued**

# Single Audit

What is a Single Audit?

- Audit of compliance with federal program requirements
- FY 2026 threshold \$1,000,000 expenditures requirement
- Separate reporting – Schedule of Expenditure of Federal Awards
- Auditors issue reports on internal controls and compliance with federal awards
- Water Authority has not had a Single Audit since FY 2006

➤ Single Audit will be required for:

1. Carlsbad Desalination Plant Intake and Discharge Facilities \$19.4M grant
2. WaterSmart \$3M grant restoration of habitat area in San Luis Rey Habitat Management Area

# GASB 103 Financial Reporting Model Improvements

## Impacts on the Water Authority

- Management's Discussion and Analysis
- Unusual or Infrequent Items
- Presentation of the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position
  - ✓ Definitions of Operating Revenues and Expenses and Nonoperating Revenues and Expenses
  - ✓ Definitions of Subsidies (new category)

# GASB 103 Implementation – Revised FY 2025 Pg. 1 of 4

## GASB 103 Proforma Example FY 2025 Statement of Revenues, Expenses and Changes in Net Position

	Audited FY 2025	Revised GASB 103 FY 2025	Changes	
<b>Operating Revenues</b>	\$ 708,902,990	\$ 778,065,392	\$ 69,162,402	Higher from reclasses from NonOperating & Capital Contributions sections
<b>Operating Expenses</b>	(653,774,399)	(666,389,532)	(12,615,133)	Higher from reclasses from NonOperating section
<b>Operating income (loss)</b>	55,128,591	111,675,860	56,547,269	
<b>Noncapital Subsidies</b>	-	42,750,396	42,750,396	NEW due to reclasses from NonOperating & Capital Contributions sections
<b>Operating income (loss) and noncapital subsidies</b>	55,128,591	154,426,256	99,297,665	NEW subtotal
<b>Other Nonoperating Revenues (Expenses)</b>	29,451,903	(53,313,398)	(82,765,301)	Lower from reclasses to Operating, Noncapital subsidies and Unusual Item sections
<b>Capital Contributions</b>	32,330,614	-	(32,330,614)	Lower from reclasses to Operating & NonOperation sections
<b>Unusual Item - Detachment Proceeds</b>	-	15,798,250	15,798,250	NEW due to reclasses from NonOperating section
<b>Change in Net Position</b>	116,911,108	116,911,108	-	
<b>Net Position at Beginning of Year</b>	1,600,702,343	1,600,702,343	-	
<b>Net Position at End of Year</b>	\$ 1,717,613,451	\$ 1,717,613,451	\$ -	

## Operating Revenues Section

	Audited FY 2025	GASB 103 Revised FY 2025	Change	
Operating Revenues	\$ 708,902,990	\$ 778,065,392	\$ 69,162,402	<ul style="list-style-type: none"> <li>Water sales</li> <li>Infrastructure access charges (NEW)</li> <li>Capacity charges (NEW)</li> <li>Other income (NEW)</li> <li>Other revenues</li> </ul>

## Operating Expenses Section

	Audited FY 2025	GASB 103 Revised FY 2025	Change	
Operating Expenses	\$ (653,774,399)	\$ (666,389,532)	\$ (12,615,133)	<ul style="list-style-type: none"> <li>Cost of sales</li> <li>Depreciation and amortization</li> <li>Operations and maintenance (REVISED)</li> <li>Planning (REVISED)</li> <li>General and administrative (REVISED)</li> <li>Project expenses write-off (NEW)</li> <li>Other expenses (New)</li> </ul>

## Noncapital Subsidies Section (NEW)

	Audited FY 2025	GASB 103 Revised FY 2025	Change
<b>Noncapital Subsidies</b>	\$ -	\$ 42,750,396	\$ 42,750,396

- Property taxes and in-lieu charges (NEW)
- Water standby availability charges (NEW)
- Intergovernmental - BABs Subsidy (NEW)
- Intergovernmental - Local Grant Revenues (NEW)
- Intergovernmental - Local Grant Expenses (NEW)
- Grant revenues (Fed & State) (NEW)
- Grant expenses (Fed & State) (NEW)
- Contributions in aid of capital assets (NEW)

## Capital Contributions Section (REMOVED)

	Audited FY 2025	GASB 103 Revised FY 2025	Change
<b>Capital Contributions</b>	\$ 32,330,614	\$ -	\$ (32,330,614)

- Capacity charges (REMOVED)
- Water standby availability charges (REMOVED)
- Contributions in aid of capital assets (REMOVED)

## Other Nonoperating Revenues (Expenses) Section

	Audited FY 2025	GASB 103 Revised FY 2025	Change
Other Nonoperating - Revenues (Expenses)	\$ 29,451,903	\$ (53,313,398)	\$ (82,765,301)

- Investment income
- Desalination shortfall revenues
- Gain on sale/retirement of capital assets
- Interest expense
- Debt issuance costs
- Infrastructure access charges (REMOVED)
- Property taxes and in-lieu charges (REMOVED)
- Intergovernmental - Local Grant Revenues (REMOVED)
- Grant revenues (Fed & State) (REMOVED)
- Grant expenses (Fed & State) (REMOVED)
- Other income (REMOVED)
- Detachment proceeds (REMOVED)
- Project Expenses Write-Off (REMOVED)
- Other expenses (REMOVED)

## Unusual or Infrequent Item Section (NEW)

	Audited FY 2025	GASB 103 Revised FY 2025	Change
Unusual Item	\$ -	\$ 15,798,250	\$ 15,798,250

Detachment proceeds (NEW)

# Debt Service Coverage Ratio GASB 103 Impact FY 2025

ACFR Statistical Section - Table 11

Revenue Debt Service Coverage Ratio Calculation

**PROFORMA**

	Fiscal Year	Revenues for Purpose of Calculation <sup>(1)</sup>	Operating Expenses <sup>(2)</sup>	Net Revenue Available for Debt Service	Senior Lien Debt Service <sup>(3)</sup>		Total	Coverage Factor
					Principal	Interest		
<b>GASB 103 - Revised</b>	2025	\$ 780,461,630	\$ 574,715,864	\$ 205,745,766	\$ 65,425,000	\$ 66,009,855	\$ 131,434,855	<b>157%</b>
<b>Audited Amounts</b>	2025	\$ 779,751,596	\$ 565,569,018	\$ 214,182,578	\$ 65,425,000	\$ 66,009,855	\$ 131,434,855	<b>163%</b>

Notes: Includes GASB 103 Pronouncement Changes

(1) Includes amounts transferred to and from the Rate Stabilization Fund, and excludes interest on debt proceeds, property tax receipts, contributions in aid of capital assets and Capital Improvement Program (CIP) grant

(2) Excludes depreciation and amortization expenses; net of applicable property tax receipts.

(3) Excludes commercial paper and 2021 Subordinate Lien Water Revenue Bonds, Series 2021S-1 (short term debt).

# Audit Committee 2<sup>nd</sup> Meeting

- Discuss any significant changes to accounting policies or practices; provide an overview of new accounting pronouncement impacts; report on Audit Committee requests; and provide an audit status update
  
- Update on significant financial matters:
  - Progress of Single Audit
  - GASB 103 implementation (Financial Reporting Model Improvements)
  - Water Transfer agreements accounting