



DATA SHEET
Agenda No. 8.

Meeting Date: October 4, 2018

Agenda Item:

Consider approval of, and authorize the Executive Director to sign an engagement letter with Deloitte & Touche LLP, external auditor, to conduct the District's FY 2018 annual financial audit.

Placement:	<input checked="" type="checkbox"/> Consent	<input type="checkbox"/> Individual Consideration	<input type="checkbox"/> Executive Session
Vote:	<input checked="" type="checkbox"/> Non-Weighted	<input type="checkbox"/> Weighted Capital	
Recommending Department: Business Department			

Background:

The FY 2018 audit will be the fourth annual audit of a 5-year proposal period as authorized for Deloitte & Touche by the Board. The enclosed draft of the annual Engagement Letter outlines the expectations and responsibilities of those involved in the audit, as well as the anticipated cost of the audit. The expectations and responsibilities outlined in the Engagement Letter are very similar to those in previous Engagement Letters. The proposed cost conforms to the stated amount in the previously approved proposal.

Financial:

The cost of \$150,491 conforms to the proposed budget and to the proposal. The cost of the audit will be allocated over all budgeted systems and projects via the standard allocation process.

Recommendation:

Staff recommends approval of the Engagement Letter with Deloitte and Touche for the FY 2018 audit and recommends authorizing the Executive Director to approve the agreement.

Enclosures:

A draft Engagement Letter from Deloitte and Touche.

For more information, please contact Lester Harris at (972) 219-1228.

Submitted By:

Lester T. Harris, Jr. Accounting Manager

Date: September 28, 2018



September 14, 2018

Mr. Kevin Mercer
President
Board of Directors of Upper Trinity Regional Water District
900 N Kealy St, PO Box 305
Lewisville, Texas 75067

Mr. Larry Patterson
Executive Director
Upper Trinity Regional Water District
900 N Kealy St, PO Box 305
Lewisville, Texas 75067

Dear Mr. Mercer and Mr. Patterson:

Deloitte & Touche LLP ("D&T" or "we" or "us") is pleased to serve as independent auditors for Upper Trinity Regional Water District (the "District" or "you" or "your"). Mrs. Reem Samra will be responsible for the services that we perform for the District hereunder.

In addition to the audit services we are engaged to provide under this engagement letter, we would also be pleased to assist the District on issues as they arise throughout the year. Hence, we hope that you will call Mrs. Samra whenever you believe D&T can be of assistance.

The services to be performed by D&T pursuant to this engagement are subject to the terms and conditions set forth herein and in the accompanying appendices. Such terms and conditions shall be effective as of the date of the commencement of such services.

Audit of Financial Statements

Our engagement is to perform an audit in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards"). The objective of an audit conducted in accordance with generally accepted auditing standards is to express an opinion on whether the District's financial statements for the year ending September 30, 2018, are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles").

Appendix A contains a description of the auditor's responsibilities and the scope of an audit in accordance with generally accepted auditing standards.

Supplementary information accompanies the District's financial statements. We will subject such supplementary information to the auditing procedures applied to our audit of the financial statements and certain additional procedures with the objective of expressing an opinion on whether such information is fairly stated, in all material respects, in relation to the financial statements as a whole.

D&T Reports

We expect to issue a written report upon the completion of our audit. Our ability to express an opinion or to issue any report as a result of this engagement and the wording thereof will, of course, be dependent on the facts and circumstances at the date of our report. If, for any reason, we are unable to complete our audit or are unable to form or have not formed an opinion, we may decline to express an opinion or decline to issue any report as a result of this engagement. If we are unable to complete our audit, or if any report to be issued by D&T as a result of this engagement requires modification, the reasons for this will be discussed with the Board of Directors of Upper Trinity Regional Water District (the "Board of Directors") and the District's

Deloitte & Touche LLP
JPMorgan Chase Tower
2200 Ross Avenue
Suite 1600
Dallas, TX 75201-6778
USA

Tel: +1 214 840 7000
www.deloitte.com

management.

Management’s Responsibilities

Appendix B describes management’s responsibilities.

Responsibility of the Board of Directors

As independent auditors of the District, we acknowledge that the Board of Directors is directly responsible for the appointment, compensation, and oversight of our work, and accordingly, except as otherwise specifically noted, we will report directly to the Board of Directors. You have advised us that the services to be performed under this engagement letter, including, where applicable, the use by D&T of affiliates or related entities as subcontractors in connection with this engagement, have been approved by the Board of Directors in accordance with the Board of Directors’ established preapproval policies and procedures.

Communications with the Board of Directors

Appendix C describes various matters that we are required by generally accepted auditing standards to communicate with the Board of Directors and management.

Fees

We estimate that our fees for this engagement will be \$150,491. Based on the anticipated timing of the work, our fees will be billed approximately as follows:

Invoice Date	Amount
October, 2018	\$50,000
November, 2018	\$50,000
December, 2018	\$50,491

We anticipate sending invoices according to the above schedule, and payments are due 30 days from the date of the invoice.

Our continued service on this engagement is dependent upon payment of our invoices in accordance with these terms. Our estimated fees are based on certain assumptions, including (1) timely and accurate completion of the requested entity participation schedules and additional supporting information, (2) no inefficiencies during the audit process or changes in scope caused by events that are beyond our control, (3) the effectiveness of internal control over financial reporting throughout the period under audit, (4) a minimal level of audit adjustments (recorded or unrecorded), and (5) no changes to the timing or extent of our work plans. We will notify you promptly of any circumstances we encounter that could significantly affect our estimate and discuss with you any additional fees, as necessary.

Inclusion of D&T Reports or References to D&T in Other Documents or Electronic Sites

If the District intends to publish or otherwise reproduce in any document any report issued as a result of this engagement, or otherwise make reference to D&T in a document that contains other information in addition to the audited financial statements (e.g., in a periodic filing with a regulator, in a debt or equity offering circular, or in a private placement memorandum), thereby associating D&T with such document, the District agrees that its management will provide D&T with a draft of the document to read and obtain our approval for the inclusion or incorporation by reference of any of our reports, or the reference to D&T, in such document before the document is

printed and distributed. The inclusion or incorporation by reference of any of our reports in any such document would constitute the reissuance of such reports. The District also agrees that its management will notify us and obtain our approval prior to including any of our reports on an electronic site.

Our engagement to perform the services described herein does not constitute our agreement to be associated with any such documents published or reproduced by or on behalf of the District. Any request by the District to reissue any report issued as a result of this engagement, to consent to any such report's inclusion or incorporation by reference in an offering or other document, or to agree to any such report's inclusion on an electronic site will be considered based on the facts and circumstances existing at the time of such request. The estimated fees outlined herein do not include any procedures that would need to be performed in connection with any such request. Should D&T agree to perform such procedures, fees for such procedures would be subject to the mutual agreement of the District and D&T.

* * * * *

The parties acknowledge and agree that D&T is being engaged under this engagement letter to provide only the services described herein. Should the District or the Board of Directors request, and should D&T agree to provide, services (including audit services) beyond those described herein, such services will constitute a separate engagement and will be governed by a separate engagement letter.

This engagement letter, including Appendices A through E attached hereto and made a part hereof, constitutes the entire agreement between the parties with respect to this engagement and supersedes any other prior or contemporaneous agreements or understandings between the parties, whether written or oral, relating to this engagement.

If the above terms are acceptable and the services described are in accordance with your understanding, please sign the copy of this engagement letter in the space provided and return it to us.

Yours truly,

Deloitte & Touche LLP

Acknowledged and approved on behalf of
the Board of Directors of Upper Trinity Regional Water District:

By: _____

Title: _____

Date: _____

Accepted and agreed to by
Upper Trinity Regional Water District:

By: _____

Title: _____

Date: _____

APPENDIX A

AUDITOR'S RESPONSIBILITIES AND SCOPE OF AN AUDIT IN ACCORDANCE WITH GENERALLY ACCEPTED AUDITING STANDARDS

This Appendix A is part of the engagement letter dated September 14, 2018, between Deloitte & Touche LLP and Upper Trinity Regional Water District and approved by the Board of Directors of Upper Trinity Regional Water District.

Auditor's Responsibilities

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Board of Directors are presented fairly, in all material respects, in accordance with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Board of Directors of their responsibilities.

Scope of an Audit

Generally accepted auditing standards require that we plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements as a whole are free from material misstatement, whether caused by fraud or error. However, because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk exists that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with generally accepted auditing standards. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by fraud or error, that are not material to the financial statements as a whole are detected.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we consider internal control relevant to the District's preparation and fair presentation of the 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 District's internal control. 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 financial statements.

MANAGEMENT'S RESPONSIBILITIES

This Appendix B is part of the engagement letter dated September 14, 2018, between Deloitte & Touche LLP and Upper Trinity Regional Water District and approved by the Board of Directors of Upper Trinity Regional Water District.

Financial Statements

Management is responsible for the preparation, fair presentation, and overall accuracy of the financial statements in accordance with generally accepted accounting principles. In this regard, management has the responsibility for, among other things:

- Selecting and applying the accounting policies
- Designing, implementing, and maintaining effective internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
- Identifying and ensuring that the District complies with the laws and regulations applicable to its activities and informing us of all instances of identified or suspected noncompliance with such laws or regulations
- Providing us with (1) access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters, (2) additional information that we may request from management for the purpose of our audit, and (3) unrestricted access to personnel within the District from whom we determine it necessary to obtain audit evidence

Management is also responsible for (1) preparing the supplementary information in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and reporting requirements prescribed by the Texas Commission on Environmental Quality, (2) including our report on the supplementary information in any document that contains the supplementary information and that indicates that D&T has reported on such supplementary information, and (3) presenting the supplementary information with the audited financial statements.

Management's Representations

We will make specific inquiries of the District's management about the representations embodied in the financial statements and supplementary information. In addition, we will request that management provide us with the written representations the District is required to provide to its independent auditors under generally accepted auditing standards. The responses to those inquiries and the written representations of management are part of the evidential matter that D&T will rely on in forming its opinion on the District's financial statements and supplementary information. Because of the importance of management's representations, the District agrees to release and indemnify D&T, its subcontractors, and their respective personnel from all claims, liabilities, and expenses relating to our services under this engagement letter attributable to any misrepresentation by management.

Process for Obtaining Preapproval of Services

Management is responsible for the coordination of obtaining the preapproval of the Board of

Directors, in accordance with the Board of Directors' preapproval process, for any services to be provided by D&T to the District.

Independence Matters

In connection with our engagement, D&T, management, and the Board of Directors will assume certain roles and responsibilities in an effort to assist D&T in maintaining independence. D&T will communicate to its partners, principals, and employees that the District is an attest client. Management of the District will ensure that the District, together with its subsidiaries and other entities that comprise the District for purposes of the consolidated financial statements, has policies and procedures in place for the purpose of ensuring that neither the District nor any such subsidiary or other entity will act to engage D&T or accept from D&T any service that under American Institute of Certified Public Accountants (AICPA) or other applicable rules would impair D&T's independence. All potential services are to be discussed with Mrs. Samra.

In connection with the foregoing paragraph, the District agrees to furnish to D&T and keep D&T updated with respect to a corporate tree that identifies the legal names of the District's affiliates, as defined in AICPA *Code of Professional Conduct* Interpretation No. 101-18 (e.g., parents, subsidiaries, investors, or investees) ("District Affiliates"), together with the ownership relationship among such entities. Such information will be maintained in a database accessible by D&T in connection with their compliance with AICPA or other applicable independence rules.

Management will coordinate with D&T to ensure that D&T's independence is not impaired by hiring former or current D&T partners, principals, or professional employees in a key position, as defined in the AICPA *Code of Professional Conduct*. Management of the District will ensure that the District, together with its subsidiaries and other entities that comprise the District for purposes of the consolidated financial statements, also has policies and procedures in place for purposes of ensuring that D&T's independence will not be impaired by hiring a former or current D&T partner, principal, or professional employee in a key position that would cause a violation of the AICPA *Code of Professional Conduct* or other applicable independence rules. Any employment opportunities with the District for a former or current D&T partner, principal, or professional employee should be discussed with Mrs. Samra before entering into substantive employment conversations with the former or current D&T partner, principal, or professional employee.

Equity or Debt Security Issuances

The District also agrees to furnish to D&T and keep D&T updated with respect to any equity or debt securities of the District and District Affiliates (including, without limitation, tax-advantaged debt of such entities that is issued through governmental authorities) that are registered, issued, listed, or traded outside of the United States (whether through stock, bond, commodity, futures or similar markets, or equity, debt, or any other securities offerings), together with related securities identification information (e.g., ticker symbols or CUSIP®, ISIN®, or Sedol® numbers). The District acknowledges and consents that such information may be treated by D&T as being in the public domain.

For purposes of the preceding sections entitled "Independence Matters", "Process for Obtaining Preapproval of Services," and "Equity or Debt Security Issuances", "D&T" shall mean Deloitte & Touche LLP and its subsidiaries; Deloitte Touche Tohmatsu Limited, its member firms, the affiliates of Deloitte & Touche LLP, Deloitte Touche Tohmatsu Limited and its member firms; and, in all cases, any successor or assignee.

APPENDIX C

COMMUNICATIONS WITH THE BOARD OF DIRECTORS

This Appendix C is part of the engagement letter dated September 14, 2018, between Deloitte & Touche LLP and Upper Trinity Regional Water District and approved by the Board of Directors of Upper Trinity Regional Water District.

We are responsible for communicating with the Board of Directors significant matters related to the audit that are, in our professional judgment, relevant to the responsibilities of the Board of Directors in overseeing the financial reporting process.

In connection with the foregoing, we will communicate to the Board of Directors any fraud we identify or suspect that involves (1) management, (2) employees of the District who have significant roles in internal control, or (3) other employees of the District when the fraud results in a material misstatement of the financial statements. In addition, we will communicate with the Board of Directors any other matters related to fraud that are, in our professional judgment, relevant to their responsibilities. We will communicate to management any fraud perpetrated by lower-level employees of which we become aware that does not result in a material misstatement of the financial statements; however, we will not communicate such matters to the Board of Directors, unless otherwise directed by the Board of Directors.

We will also communicate to the Board of Directors matters involving the District's noncompliance with laws and regulations that have come to our attention during the course of our audit, other than when such matters are clearly inconsequential.

We will also communicate in writing to management and the Board of Directors any significant deficiencies or material weaknesses in internal control (as defined in generally accepted auditing standards) that we have identified during the audit, including those that were remediated during the audit.

Generally accepted auditing standards do not require us to design procedures for the purpose of identifying other matters to communicate with the Board of Directors. However, we will communicate to the Board of Directors matters required by AICPA AU-C 260, *The Auditor's Communication with Those Charged with Governance*.

APPENDIX D

GENERAL BUSINESS TERMS

This Appendix D is part of the engagement letter to which these terms are attached (the engagement letter, including its appendices, the "engagement letter") dated September 14, 2018, between Deloitte & Touche LLP and Upper Trinity Regional Water District and approved by the Board of Directors of Upper Trinity Regional Water District.

1. Independent Contractor. D&T is an independent contractor and D&T is not, and will not be considered to be, an agent, partner, fiduciary, or representative of the District or the Board of Directors.
2. Survival. The agreements and undertakings of the District and the Board of Directors contained in the engagement letter will survive the completion or termination of this engagement.
3. Assignment and Subcontracting. Except as provided below, no party may assign any of its rights or obligations (including, without limitation, interests or claims) relating to this engagement without the prior written consent of the other parties. The District and the Board of Directors hereby consent to D&T subcontracting a portion of its services under this engagement to any affiliate or related entity, whether located within or outside of the United States. Professional services performed hereunder by any of D&T's affiliates or related entities shall be invoiced as professional fees, and any related expenses shall be invoiced as expenses, unless otherwise agreed.
4. Severability. If any term of the engagement letter is unenforceable, such term shall not affect the other terms, but such unenforceable term shall be deemed modified to the extent necessary to render it enforceable, preserving to the fullest extent permissible the intent of the parties set forth herein.
5. Force Majeure. No party shall be deemed to be in breach of the engagement letter as a result of any delays or non-performance directly or indirectly resulting from circumstances or causes beyond its reasonable control, including, without limitation, fire, epidemic or other casualty, act of God, strike or labor dispute, war or other violence, or any law, order or requirement of any governmental agency or authority.
6. Confidentiality. To the extent that, in connection with this engagement, D&T comes into possession of any confidential information of the District, D&T shall not disclose such information to any third party without the District's consent, using at least the same degree of care as it employs in maintaining in confidence its own confidential information of a similar nature, but in no event less than a reasonable degree of care. The District and the Board of Directors hereby consent to D&T disclosing such information (1) as may be required by law or regulation, or to respond to governmental inquiries, or in accordance with applicable professional standards or rules, or in connection with litigation or arbitration pertaining hereto; (2) to the extent such information (i) is or becomes publicly available other than as the result of a disclosure in breach hereof, (ii) becomes available to D&T on a nonconfidential basis from a source that D&T believes is not prohibited from disclosing such information to D&T, (iii) is already known by D&T without any obligation of confidentiality with respect thereto, or (iv) is developed by D&T independently of any disclosures made to D&T hereunder; or (3) to contractors providing administrative, infrastructure, and other support services to D&T and subcontractors providing services in connection with this engagement, in each case, whether located within or outside of the United States, provided that such contractors and subcontractors have agreed to be bound by confidentiality obligations similar to those in this paragraph.

7. Dispute Resolution. Any controversy or claim between the parties arising out of or relating to the engagement letter or this engagement (a "Dispute") shall be resolved by mediation or binding arbitration as set forth in the Dispute Resolution Provision attached hereto as Appendix E and made a part hereof.

APPENDIX E

DISPUTE RESOLUTION PROVISION

This Appendix E is part of the engagement letter dated September 14, 2018, between Deloitte & Touche LLP and Upper Trinity Regional Water District and approved by the Board of Directors of Upper Trinity Regional Water District.

This Dispute Resolution Provision sets forth the dispute resolution process and procedures applicable to the resolution of Disputes and shall apply to the fullest extent of the law, whether in contract, statute, tort (such as *negligence*), or otherwise.

Mediation: All Disputes shall be first submitted to nonbinding confidential mediation by written notice to the parties, and shall be treated as compromise and settlement negotiations under the standards set forth in the Federal Rules of Evidence and all applicable state counterparts, together with any applicable statutes protecting the confidentiality of mediations or settlement discussions. If the parties cannot agree on a mediator, the International Institute for Conflict Prevention and Resolution ("CPR"), at the written request of a party, shall designate a mediator.

Arbitration Procedures: If a Dispute has not been resolved within 90 days after the effective date of the written notice beginning the mediation process (or such longer period, if the parties so agree in writing), the mediation shall terminate and the Dispute shall be settled by binding arbitration to be held in Dallas, Texas. The arbitration shall be solely between the parties and shall be conducted in accordance with the CPR Rules for Non-Administered Arbitration that are in effect at the time of the commencement of the arbitration, except to the extent modified by this Dispute Resolution Provision (the "Rules").

The arbitration shall be conducted before a panel of three arbitrators. Each of the District and Deloitte & Touche LLP shall designate one arbitrator in accordance with the "screened" appointment procedure provided in the Rules and the two party-designated arbitrators shall jointly select the third in accordance with the Rules. No arbitrator may serve on the panel unless he or she has agreed in writing to enforce the terms of the engagement letter (including its appendices) to which this Dispute Resolution Provision is attached and to abide by the terms of this Dispute Resolution Provision. Except with respect to the interpretation and enforcement of these arbitration procedures (which shall be governed by the Federal Arbitration Act), the arbitrators shall apply the laws of the State of Texas, (without giving effect to its choice of law principles) in connection with the Dispute. The arbitrators shall have no power to award punitive, exemplary or other damages not based on a party's actual damages (and the parties expressly waive their right to receive such damages). The arbitrators may render a summary disposition relative to all or some of the issues, provided that the responding party has had an adequate opportunity to respond to any such application for such disposition. Discovery shall be conducted in accordance with the Rules.

All aspects of the arbitration shall be treated as confidential, as provided in the Rules. Before making any disclosure permitted by the Rules, a party shall give written notice to all other parties and afford such parties a reasonable opportunity to protect their interests. Further, judgment on the arbitrators' award may be entered in any court having jurisdiction.

Costs: Each party shall bear its own costs in both the mediation and the arbitration; however, the parties shall share the fees and expenses of both the mediators and the arbitrators equally.