

December 2, 2024

PRESIDENT'S REPORT

MOODY'S RATINGS REVIEW

1. **Review Process**. Each year the District is required by law to perform an audit of its financial statements.
 - a. In conformance with best business practices, the District hired a different auditor than HGA. HGA and the District had used the same auditor for at least 17 years.
 - b. The auditor began requesting documents and scheduling the physical audit in July 2023. HGA postponed the production of documents and physical audit for about 3 weeks. After the auditor had begun gathering documents, and had been working for several weeks, they abruptly quit. At that time the auditor had only spoken to the HGA Controller and Rubin Brown, the prior year auditor.
 - c. Despite many attempts to learn the reason behind the auditor quitting, we were unable to learn the cause. The auditor said they were advised by counsel not to disclose the reason for the termination. This would raise alarm bells to anyone with any business and accounting background.
2. **Current Audit Status**. This left the District scrambling for a new auditor in late August 2024. The annual audit is due by September 15th with the extension we were granted.
 - a. **Forensic Audit**. It was determined that a forensic audit was necessary for the following reasons:
 - i. The auditor's abrupt termination of the audit without explanation after the audit had begun.
 - ii. Multiple differing numbers and names of employees who serve the District and for which the District reimburses HGA for their wages.
 - iii. HGA's refusal to provide substantiation for the amounts billed the District, including invoices as well as wage information.
 - b. **Documents**. The District received the 2023 invoices for the audit from HGA in late October and received the wage information last week. The information has been provided to the auditor and they are working diligently.

3. **Property Taxes**. By law the state auditor must direct the county clerk to withhold disbursing the District's tax revenue to the District until the District files its annual financial statement audit. The taxes for the year have been received and the District's debt service has been paid for 2024. Not much tax revenue is received between now and February, but the District is not earning any income on the withheld tax revenue.
4. **Moody's Rating**. Moody's rates an entity's credit worthiness and that rating effects its ability to obtain financing. The District has no plans to seek financing, but the board has a duty to maintain the District's credit rating.
 - a. The late audit automatically triggers a review.
 - b. Moody's intended on downgrading the District's credit rating due to the late audit.
 - c. After much negotiation and providing documentation of the District's financial health, Moody's has delayed the review for 60 to 90 days.
5. **Positive facts**: As support for the 60 to 90 day delay in assessing the District's credit rating, Moody's cited several positive factors:
 - a. The District has a low debt burden of \$7.4 million
 - b. The District has healthy reserves of over 57% of revenues
 - c. The District's has separated the funds previously comingled with HGA
 - d. The debt service is controlled under a trustee agreement not accessible by HGA
 - e. Moody's considers any reduction in credit rating a moderate exposure to the enterprises