



October 28, 2020

To the Board of Directors
Orange County Sanitation District
10844 Ellis Avenue
Fountain Valley, California

We have audited the financial statements of the Orange County Sanitation District (OCSD) as of and for the year ended June 30, 2020, and have issued our report thereon dated October 28, 2020. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our auditor and management responsibility letter dated September 16, 2020, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of OCSD solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the 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 for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you in our auditor and management responsibility letter dated September 16, 2020 and our planning communication letter also dated September 16, 2020.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of significant accounting policies adopted by OCSD is included in Note 1 to the financial statements. OCSD implemented Governmental Accounting Standard Board (GASB) Statement No. 84, *Fiduciary Activities*, No. 90, *Majority Equity Interests – an amendment of GASB Statement No. 14 and No. 61*, and No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* for the year ended June 30, 2020, as described in Note 1. There is no significant impact to OCSD's financial statements due to the implementation of those new pronouncements. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are –

- Valuations of actuarially determined contributions, deferred outflows of resources, deferred inflows of resources, and net pension liability/asset for OCSD's employee pension plan and additional retiree benefit account plan are based on actuarial calculations, which incorporate actuarial methods and assumptions adopted by the Board of Directors.
- Valuations of actuarially determined contributions, deferred outflows of resources, deferred inflows of resources, and net OPEB liability for OCSD's employee OPEB plan are based on actuarial calculations, which incorporate actuarial methods and assumptions adopted by the Board of Directors.
- Management's estimates of workers' compensation and general liability are based on reports prepared by third party actuarial valuations. We evaluated the key factors and assumptions used to develop the estimate liability in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the allowance for uncollectible accounts is based on evaluating individual customer accounts receivable at least one year past due and considering the customer's financial condition, credit history and current economic conditions. We evaluated the key factors and assumptions used to assess the collectability of the receivables in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of depreciation is based on the useful-lives of the related capital assets. We evaluated the key factors and assumptions used to develop the useful-lives of the related capital assets in determining that they are reasonable in relation to the financial statements taken as a whole.

- Fair values of investments are based on quoted market prices or significant other observable inputs from independent published sources. We evaluated the key factors and assumptions used to develop the fair value of investments in determining that it is reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting OCSD's financial statements relate to:

- The disclosure of net pension liability and OPEB benefits in Notes 5 and 6 to the financial statements, respectively, are based on actuarial valuations.
- Transactions with Irvine Ranch Water District – Revenue Area No. 14 as disclosed in Note 7 to the basic financial statements.
- Commitments and contingencies that will impact future resources of OCSD as disclosed in Note 8 to the basic financial statements.
- Impact of COVID-19 pandemic to OCSD as disclosed in Note 9 to the basic financial statements.

Difficulties Encountered during the Audit

We encountered no difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. There were no misstatements detected as a result of audit procedures and corrected by management which were material, either individually or in the aggregate, to the financial statements taken as a whole. In addition, there were no uncorrected misstatements noted as a result of the audit procedures.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to OCSD's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated October 28, 2020 (Attachment A).

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with OCSD, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as OCSD's auditors.

This report is intended solely for the information and use of the Board of Directors and management of OCSD and is not intended to be, and should not be, used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

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Water District



Orange County Sanitation District

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October 28, 2020

Macias Gini & O'Connell LLP
12264 El Camino Real, Ste. 402
San Diego, CA 92130

This representation letter is provided in connection with your audit of the financial statements of the Orange County Sanitation District (OCSD) as of June 30, 2020, and the respective changes in financial position and cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of October 28, 2020, the following representations made to you during your audit.

Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the auditor and management responsibilities letter dated September 16, 2020, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of OCSD.
- 3) We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- 6) Related party relationships and transactions, including revenues, expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
- 7) Adjustments or disclosures have been made for all events, including instances of noncompliance of which we are not aware of any, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements or in the schedule of finding and questioned costs.

Our Mission: To protect public health and the environment by providing effective wastewater collection, treatment, and recycling.



- 8) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- 9) Guarantees, whether written or oral, under which OCSD is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

- 10) We have provided you with:
 - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
 - b) Additional information that you have requested from us for the purpose of the audit.
 - c) Unrestricted access to persons within OCSD from whom you determined it necessary to obtain audit evidence.
 - d) Minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared
- 11) All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal awards.
- 12) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 13) We have no knowledge of any fraud or suspected fraud that affects OCSD and involves
 - Management,
 - Employees who have significant roles in internal control, or
 - Others where the fraud could have a material effect on the financial statements.
- 14) We have no knowledge of any allegations of fraud or suspected fraud affecting OCSD's financial statements communicated by employees, former employees, regulators, or others.
- 15) We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
- 16) We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- 17) We have disclosed to you the identity of OCSD's related parties and all the related party relationships and transactions of which we are aware.

Government-specific

- 18) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 19) We have a process to track the status of audit findings and recommendations.
- 20) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.



- 21) OCSD has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, deferred inflows of resources or net position.
- 22) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.
- 23) We are not aware of any instances, which have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
- 24) We are not aware of any instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- 25) We are not aware of any instances, which have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
- 26) There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- 27) OCSD has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 28) OCSD has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 29) The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
- 30) Components of net position (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
- 31) Investments are properly valued and recorded at fair value as defined by GASB Statement No. 72, *Fair Value Measurement and Application*.
- 32) Investments are properly classified and disclosed within the following fair value hierarchy, except for investments valued at net asset value that are not subject to the fair value hierarchy, as defined by GASB Statement No. 72:
 - a. Level 1: Inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
 - b. Level 2: Inputs are inputs—other than quoted prices included within Level 1—that are observable for an asset or liability, either directly or indirectly.
 - c. Level 3: Inputs are unobservable inputs for an asset or liability.
- 33) The valuation techniques used to measure fair value of investments, including non-readily marketable securities, are proper based on the provisions of GASB Statement No. 72.



- 34) Provisions for uncollectible receivables have been properly identified and recorded.
- 35) Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.
- 36) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated and amortized.
- 37) We have evaluated the useful lives of OCSD's capital assets and have adjusted the estimated useful life of the assets, and have adjusted all related balances accordingly.
- 38) OCSD has no:
 - 1) Commitments for the purchase or sale of services or assets at prices involving a material probable loss;
 - 2) Material amounts of obsolete, damaged, or unusable items included in the inventories at greater than salvage value.
- 39) We believe that all material expenses that have been deferred to future periods will be recoverable.
- 40) We have evaluated the provisions of GASB Statement No. 84, *Fiduciary Activities* and GASB Statement No. 90, *Majority Equity Interests* and have determined that the implementation of these Standards did not have a material impact to the financial statements.
- 41) We expect the principal and interest on the Revenue Refunding Certificate Anticipation Notes, Series 2016B, will be paid from proceeds of the sale, prior to the maturity date, of a future series of certificates of participation, notes or other obligations. We have a non-cancellable agreement with our lender to refinance the notes with future obligations that will not expire until August 2021.
- 42) We have appropriately disclosed OCSD's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
- 43) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- 44) We acknowledge our responsibility for presenting the supplementary information in accordance with accounting principles generally accepted in the United States of America, and we believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
- 45) With respect to the Combining Area financial statements presented as supplementary information:
 - 1) We acknowledge our responsibility for presenting the Combining Area financial statements in accordance with accounting principles generally accepted in the United States of America, and we believe the Combining Area financial statements, including its form and content, is



fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the Combining Area financial statements have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

- 2) If the Combining Area financial statements is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.
- 46) We have evaluated and classified any subsequent events as recognized or nonrecognized through the date of this letter. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements except as disclosed in Note 9 regarding the impacts of COVID-19.

Signature: 
Jim Herberg
General Manager

Signature: 
Lorenzo Tyner
Assistant General Manager & Director of Finance
and Administrative Services