



October 25, 2019

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

We have audited the basic financial statements of the Orange County Sanitation District (OCSD) for the year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 30, 2019. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Matters

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by OCSD are described in Note 1 to the basic financial statements. As described in Note 1 to the basic financial statements, OCSD implemented Governmental Accounting Standard Board (GASB) Statement No. 83, *Certain Asset Retirement Obligations* and also GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. However, implementation of these Standards did not materially impact OCSD. The application of existing policies was not changed during 2019.

We noted no transactions entered into by OCSD during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's 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 significantly from those expected. The most sensitive estimates affecting OCSD's financial statements were:

- Valuations of actuarially determined contributions, deferred outflows of resources, deferred inflows of resources, and net pension liability 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 receivable 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 capital assets. We evaluated the key factors and assumptions used to develop the useful-lives of the capital assets in determining that it is 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.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- The disclosure of net pension liability and OPEB benefits in Note 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.
- Commitments and contingencies that will impact future resources of OCSD as disclosed in Note 9.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. 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.

#### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 25, 2019.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to OCSD’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as OCSD’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Matters

We applied certain limited procedures to the Management’s Discussion and Analysis, Schedule of Proportionate Share of Net Pension Liability (Asset) – OCERS Pension Plan, Schedule of District Contributions – OCERS Pension Plan, Schedule of Total Pension Liability – Additional Retiree Benefit Plan, Schedule of Changes in Total Pension Liability - Additional Retiree Benefit Plan, Schedule of Total OPEB Liability – Post Employment Medical Benefits Plan, and Schedule of Changes in Total OPEB Liability – Post Employment Medical Benefits Plan, which are required supplementary information (RSI) that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the “Combining Area” financial statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that 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 compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory and statistical sections, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

This information 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.

Very truly yours,

Macias Gini & O'Connell LLP

Newport Beach, California  
October 25, 2019