



October 25, 2021

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 (OC San) as of and for the year ended June 30, 2021, and have issued our report thereon dated October 25, 2021. 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 May 20, 2021, 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 OC San 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 May 20, 2021, and our planning communication letter also dated June 29, 2021.

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 OC San is included in Note 1 to the financial statements. OC San early implemented Governmental Accounting Standard Board (GASB) Statement No. 98, *The Annual Comprehensive Financial Report* for the year ended June 30, 2021, as described in Note 1. There is no significant impact to OC San's financial statements due to the implementation of this Statement other than to change the name and acronym of the document. 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 OC San'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 OC San'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 OC San's financial statements relate to:

- The disclosure of net pension liability and OPEB benefits in Notes 5 and 6 to the basic 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 OC San as disclosed in Note 8 to the basic financial statements.
- Impact of COVID-19 pandemic to OC San 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 OC San's basic 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 dated October 25, 2021.

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 OC San, 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 OC San's auditors.

Other Information in Documents Containing Audited Financial Statements

Pursuant to professional standards, our responsibility as auditors for other information in documents (i.e., bond official statements) containing OC San's audited basic financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, if engaged by OC San, in accordance with such professional standards we would read the information and consider whether such information, or the manner of its presentation, was materially inconsistent with its presentation of the basic financial statements.

Other Matters

We applied certain limited procedures to the management's discussion and analysis, and the pension and OPEB schedules which are required supplementary information (RSI) that supplements 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 basic 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 basic financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the basic financial statements or to the basic financial statements themselves.

Our responsibility also includes communicating to you any information, which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

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

Macias Gini & O'Connell LLP

Irvine, California