

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

We have audited the financial statements of Orange County Sanitation District (OC San) as of and for the year ended June 30, 2023, and have issued our report thereon dated October 26, 2023. 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 engagement letter dated April 24, 2023, 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 letter dated April 24, 2023.

### **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 under the American Institute of Certified Public Accountants ("AICPA") independence standards, contained in the *Code of Professional Conduct*.

## **Significant Risks Identified**

For purposes of designing our audit procedures, we identified the following significant risks:

- The recording of capital assets. As a result, we selected a sample of at least 65% of outstanding construction projects and met with OC San's personnel who determine the status of the project. We also selected a sample of project expenses and reviewed the transactions to ensure they meet the criteria for capitalization.
- The new SBITA accounting standard, Governmental Accounting Standards Board (GASB) Statement No. 96. As a result, we reviewed OC San's software agreements, tested the calculations of the software transactions, and ensured OC San's disclosure footnotes are accurate and complete in accordance with the new standard.
- Single audit on federal awards for WIFIA grant funding passed through the Orange County Water District.

## **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 the significant accounting policies adopted by OC San is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2023 except for the implementation of GASB 96 that changed the accounting for subscription based information technology agreements. 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 include:

- Judgments involving the useful lives and depreciation methodology to use for capital assets
- Judgments concerning which capital project expenditures should be capitalized and depreciated versus expensed in the financial statements and judgments concerning which projects should be placed in service
- Estimates involving the calculation of the net pension liability and related transactions

- Estimates involving the calculation of the other post-employment benefit (OPEB) liability and related transactions

### *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 investment fair value in note 2 to the financial statements
- The disclosure of pensions in note 6 to the financial statements
- The disclosure of OPEB in note 7 to the financial statements

### **Significant Difficulties Encountered during the Audit**

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

### **Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards also 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 and each applicable opinion unit. During our audit, we identified an uncorrect misstatement related to capital assets reported in the financial statements that were no longer in use. Management determined the effect of not correcting the misstatement was immaterial to the financial statements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. There were no material misstatements noted as a result of our 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 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 26, 2023.

### **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, significant events or transactions that occurred during the year, 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 Included in the Annual Comprehensive Financial Report**

Pursuant to professional standards, our responsibility as auditors for other information, whether financial or nonfinancial, included in OC San's annual reports, does not extend beyond the information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, in accordance with such standards, we have read the information and considered whether such information, or the manner of its presentation, was materially inconsistent with its presentation in the financial statements.

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.

A handwritten signature in blue ink, appearing to read "Davis Fan" followed by a stylized flourish.

Irvine, California  
October 26, 2023