

December 11, 2020

To the Board of Directors
of the South Orange County Wastewater Authority
Dana Point, California

We have audited the financial statements of the South Orange County Wastewater Authority (the "Authority"), which comprise the statements of net position as of June 30, 2020 and 2019 and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the basic financial statements, and have issued our report thereon dated December 11, 2020. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated June 22, 2020, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Authority. Such considerations are solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we also performed tests of the Authority's compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

Generally accepted accounting principles provide for certain required supplementary information ("RSI") to supplement the basic financial statements. Our responsibility with respect to the Management's Discussion and Analysis, Schedule of the Authority's Proportionate Share of the Net Pension Liability and Related Ratios, Schedule of the Authority's Contributions - Pensions, the Schedule of Changes in Net OPEB Liability and Related Ratios, and the Schedule of the Authority's Contribution – OPEB, which supplement the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriations of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity.

We performed the audit according to the planned scope and timing previously communicated to you.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 2 to the basic financial statements.

New Accounting Standards

GASB Statement No. 95

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. Application of this statement is effective immediately and did not have a material effect on City's financial statements for the fiscal year ending June 30, 2020.

No other new accounting policies were adopted and the application of existing policies was not changed during 2020. We noted no transactions entered into by the Authority 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 the Authority's financial statements were:

- Management's estimate of the investment fair market value is based on information provided by the State of California for its investment in the Local Agency Investment Fund. We evaluated the key factors and assumptions used to develop the investment fair market value in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the depreciation on capital assets is based on the industry standard and past experience on actual useful life of the asset groups. We evaluated the key factors and assumptions used to develop the depreciation on capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the net other postemployment benefit ("OPEB") liability is based on the actuarial valuation on total OPEB liability and based on audited financial statements for CalPERS plans. We evaluated the key factors and assumptions used to develop the net OPEB liability in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the net pension liabilities is based on the actuarial valuation on total pension liability and based on audited financial statements on fiduciary net position for CalPERS plans. We evaluated the key factors and assumptions used to develop the net

pension liability 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:

- Note 4 – Capital Assets
- Note 6 – Other Postemployment Benefits (“OPEB”)
- Note 7 – Defined Benefit Pension Plans
- Note 9 – Commitments and Contingencies

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

Difficulties Encountered in Performing the Audits

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached Schedule A summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management 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 audits.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 11, 2020.

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 the Authority’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 the Authority’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, the Schedule of the Authority’s Proportionate Share of the Net Pension Liability and Related Ratios, the Schedule of the Authority’s Contributions – Pensions, the Schedule of Changes in Net OPEB Liability and Related Ratios, and the Schedule of the Authority’s Contribution – OPEB, which is 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 not engaged to report on the Introductory, Other Information, or Statistical Section, which accompany the basic financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of the South Orange County Wastewater Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Santa Ana, California