Certified Public Accountants

Honorable Board of Supervisors and Audit Committee
County of Sacramento, California

We have audited the financial statements of the County of Sacramento, California (County), as of and for the fiscal year ended June 30, 2022, and have issued our report thereon dated November 30, 2022. We did not audit the financial statements of the Sacramento County Employees' Retirement System (SCERS), a fiduciary component unit of the County. Those statements were separately reported by other auditors and the required communications related to that audit is presented to SCERS. 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 August 22, 2022, our responsibility, as described by professional standards, is to form and express opinions 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 (GAAP). 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 the County 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.

Compliance with All Ethics Requirements Regarding Independence

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

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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 the County is included in Note 1 to the financial statements. As described in Notes 1, 5, 7, and 8 to the financial statements, during the year, the County changed its method of accounting for leases by adopting Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. 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:

- Investment fair value measurements
- Accounts receivable, net of allowance for doubtful accounts
- Date of collection for the period of availability of certain revenues
- Capital asset useful lives and depreciation/amortization expense
- Derivative instruments – Interest rate swaps and fair value measurements
- Landfill closure and postclosure care costs
- Insurance claims payable and related claims costs
- Pension liabilities and costs
- Other postemployment benefits (OPEB) liabilities and costs

<u>Investment fair value measurements (excludes SCERS investments reported on by other auditors)</u>

Management categorizes its investment fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Bank of the West and BNY Mellon are the custodians of the County's investments. Both Bank of the West and BNY Mellon utilize pricing services that deliver current fair values and security information, which is input into their trust accounting systems. The County uses that information to support the fair value of its investments and the classification of the fair value in the hierarchy described above for financial reporting.

<u>Accounts receivable, net of allowance for doubtful accounts</u>

Management's estimate as to the collectability of accounts receivable is based on historical experience and collection trends.

Date of collection for the period of availability of certain revenues

Management's estimate of the date of collection is based on the timing of historical collection trends.

Capital asset useful lives and depreciation/amortization expense

Management's estimate of the expected useful lives of capital assets is based on historical experience. Depreciation expense is calculated on a straight-line basis over the estimated useful lives of the related capital assets, except for right-to-use leased assets, which are amortized over the lease term.

Derivative Instruments– Interest rate swaps and fair value measurements

Management considers all three of the County's interest rate swap agreements to be effective hedging derivative instruments. As established by GAAP, two qualify as hedging derivative instruments under the consistent critical terms method, and one qualifies as a hedging derivative instrument under the regression analysis method. The consistent critical terms method evaluates effectiveness by qualitative consideration of the critical terms of the hedgeable item and the potential hedging derivative instrument. The regression analysis method evaluates effectiveness by considering the statistical relationship between the cash flows or fair value of the potential hedging derivative instrument and the hedgeable item. The fair value of the interest rate swaps are estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap. Furthermore, management engaged a specialist to measure derivative instruments at fair value and evaluate hedge effectiveness.

Landfill closure and postclosure care costs

Management's estimate of the total current cost of landfill closure and postclosure care is the amount that would be paid if all equipment, facilities, and services included in the estimate were acquired during the current period. Furthermore, management engaged a specialist to estimate the remaining useful life of the active solid waste landfill.

Insurance claims payable and related claims costs

Management's estimate of the insurance claims payable and related claims costs is based on the development of amounts from the various consultants' actuarial studies.

Pension liabilities and costs

The actuarial pension data contained in Note 14 to the financial statements and required supplementary information (unaudited) is based on actuarial calculations performed in accordance with the parameters set forth in GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The actuarial calculations are prepared by the SCERS' actuarial consultant.

OPEB liabilities and costs

The actuarial OPEB data contained in Note 15 to the financial statements and required supplementary information (unaudited) is based on actuarial calculations performed in accordance with the parameters set forth in GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The actuarial calculations are prepared by the County's actuarial consultant.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

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 the County's financial statements relate to:

- The disclosure of the County's retirement plan is in Note 14 to the financial statements. As previously noted, pension amounts are based on actuarial calculations, which are sensitive to the underlying actuarial assumptions used, including, but not limited to, the discount rate and the County's proportionate share of the collective net pension liability as determined by SCERS.

- The disclosure of the County's OPEB plan is in Note 15 to the financial statements. As previously noted, OPEB amounts are based on actuarial calculations, which are sensitive to the underlying actuarial assumptions used, including, but not limited to, the discount rate and medical cost trend assumption.

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 and each applicable opinion unit. The attached schedule summarizes the uncorrected financial statement misstatement whose effect in the current and prior period, as determined by management, is immaterial, both individually and in the aggregate, to the financial statements taken as a whole and each applicable opinion unit. Uncorrected misstatements or matters underlying those misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit.

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. The attached schedule summarizes the material misstatement that we identified as a result of our audit procedures that was brought to the attention of, and corrected by, management.

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 the County'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 dated November 30, 2022.

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 the County, 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 the County's auditors.

Other Information in Documents Containing Audited Financial Statements

Pursuant to professional standards, our responsibility as auditors for other information, whether financial or nonfinancial, included in the County's annual report 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, in accordance with such standards, we have applied certain limited procedures to management's discussion and analysis, the retirement plan schedule of proportionate share of the net pension liability, the retirement plan schedule of contributions, and the OPEB schedule of changes in the total OPEB liability and related ratios, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management about 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 and individual fund statements and schedules, 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 GAAP, 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 and other records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory section, statistical section, and bond disclosures, which accompany the 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.

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.

Modification of the Auditor's Report

We have included an emphasis of matter paragraph in our auditor's report regarding the County's adoption of GASB Statement No. 87, *Leases*, effective July 1, 2021. Our opinions are not modified with respect to this matter.

Restriction on Use

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

Macias Gini & O'Connell LLP

Sacramento, California
November 30, 2022

COUNTY OF SACRAMENTO
Schedule of Uncorrected Misstatement
For the Fiscal Year Ended June 30, 2022

	Debit / (Credit)	
	Governmental Activities	
Financial Statement Line	**Revenue**	**Net Position**
Operating Grants and Contributions - Program Revenue	$ 33,836,039	
Restricted Net Position		$ (33,836,039)

To adjust for the under accrual of FY 2021 realignment growth revenue reported as revenue in FY 2022.

COUNTY OF SACRAMENTO
Schedule of Corrected Misstatement
For the Fiscal Year Ended June 30, 2022

Financial Statement Line	Debit / (Credit) Water Enterprise Fund	
Net Position - Restricted for Capital Projects	$ 81,223,000	
Unrestricted Net Position		$ (81,223,000)

To reclassify restricted net position to unrestricted net position.