Certified Public Accountants

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Sacramento (County), as of and for the fiscal year ended June 30, 2019, and have issued our report thereon dated November 27, 2019. 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 15, 2019, 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. 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.

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.

Macias Gini & O'Connell LLP
3000 S Street, Suite 300
Sacramento, CA 95816

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. There have been no initial selection of accounting policies and no changes in significant accounting policies during 2019. 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 lives and depreciation expense
- Derivatives – Interest rate swap and fair value
- Landfill closure and postclosure
- Insurance claims payable
- Pension costs
- Other postemployment benefits (OPEB) costs

<u>Investment fair value measurements</u>

Management categorizes its investment fair value measurements within the fair value hierarchy established by generally accepted accounting principles (GASB 72). 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 market values and security information, which is input into their trust accounting systems.

<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.

<u>Date of collection for the period of availability of certain revenues</u>

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

Capital asset lives and depreciation expense

Management's estimate of the expected lives of capital assets is based on historical experience.

Derivatives – Interest rate swap and fair value

Management considers all three of the County's interest rate swap agreements to be effective hedging derivative instruments. As established by generally accepted accounting principles (GASB 53), two qualify as hedging derivative instruments under the consistent critical terms method, and one qualifies as 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 values of the potential hedging derivative instrument and the hedgeable item. The fair values of the interest rate swaps were 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

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 municipal solid waste landfill.

Insurance claims payable

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

Pension 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.*

Other postemployment benefits costs

The actuarial other postemployment benefits 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*.

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 in Note 14 to the financial statements. As previously noted, 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.

- The disclosure of the County's other postemployment health care benefits (OPEB) in Note 15 to the financial statements. As previously noted, amounts are based on actuarial calculations, which are sensitive to the underlying actuarial assumptions used, including, but not limited to, the discount rate, medical trend, and the County's proportionate share of the collective total OPEB liability.

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 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. Management has corrected all identified misstatements.

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. None of the misstatements identified by us as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole or applicable opinion units.

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, which are included in the attached letter dated November 27, 2019.

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 in documents containing the County's audited 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, 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 other postemployment benefits (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 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 section, statistical section, and bond disclosure, 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.

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 27, 2019

Department of Finance
Ben Lamera
Director

County of Sacramento

Divisions
Administration
Auditor-Controller
Consolidated Utilities Billing & Service
Investments
Tax Collection & Business Licensing
Treasury

November 27, 2019

Macias Gini & O'Connell LLP
3000 S Street, Suite 300
Sacramento, CA 95816

This representation letter is provided in connection with your audit of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Sacramento, California (County) as of June 30, 2019, and for the fiscal year then ended, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position and changes in financial position and cash flows, where applicable, of the various opinion units of the County in accordance with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of November 27, 2019:

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated August 15, 2019, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- We acknowledge our responsibility for compliance with the laws, regulations, and provisions of contracts and grant agreements.
- We have reviewed, approved, and taken responsibility for the financial statements and related notes.
- We have a process to track the status of audit findings and recommendations.
- We have identified and communicated to you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- There is no summary of unrecorded misstatements since all adjustments proposed by the auditor, material and immaterial, have been recorded.
- The effects of all known actual or possible litigation and claims have been accounted for and properly disclosed in accordance with U.S. GAAP.
- All component units, as well as joint ventures with an equity interest (if any), are included and other joint ventures and related organizations are properly disclosed.
- All funds and activities are properly classified.
- All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus as amended*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
- All components of net position, nonspendable fund balance, and restricted, committed, assigned, and unassigned fund balance are properly classified and, if applicable, approved.
- Our policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position/fund balance are available is appropriately disclosed and net position/fund balance is properly recognized under the policy.
- Provisions for uncollectible receivables have been properly identified and recorded.
- All revenues within the statement of activities have been properly classified as program revenues or general revenues.
- All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
- All interfund and intra-entity transactions and balances have been properly classified and reported.
- Deposit and investment risks have been properly and fully disclosed in accordance with GASB Statement No 40, *Deposit and Investment Risk Disclosures*.
- The methods and significant assumptions used to determine the fair values of investments are appropriate for financial statement measurement and disclosure purposes and are in accordance with the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*.
- Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
- All required supplementary information is measured and presented within the prescribed guidelines.
- With regard to investments and other instruments reported at fair value:
    - The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
    - The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
    - The disclosures related to fair values are complete, adequate, and in accordance with U.S. GAAP.
    - There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.

Information Provided

- We have provided you with:
  - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
  - Additional information that you have requested from us for purposes of the audit; and
  - Unrestricted access to persons within the County from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the County and involves:
  - Management;
  - Employees who have significant roles in internal control; or
  - Others where the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the County's financial statements communicated by the board of supervisors, employees, former employees, vendors, regulators, or others.
- We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- We have disclosed to you the identity of the County's related parties and all the related party relationships and transactions of which we are aware.
- There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
- The County has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
- We have disclosed to you all material guarantees (if any), whether written or oral, under which the County is contingently liable.
- We are not aware of any nonexchange financial guarantees, under which the County is obligated in accordance with GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*.
- We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62 (GASB 62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Significant estimates are estimates at the date of the statement of net position/balance sheet that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
- We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
- There are no:
  - Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
  - Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB 62.

- Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB 62.
- Continuing disclosure consent decree agreements or filings with the Securities and Exchange Commission and we have filed updates on a timely basis in accordance with the agreements (Rule 240, 15c2-12).

- The County has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed in the financial statements.
- We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- With respect to the combining and individual fund statements and schedules accompanying the financial statements:
  - We acknowledge our responsibility for the presentation of the combining and individual fund statements and schedules in accordance with accounting principles generally accepted in the United States of America.
  - We believe the combining and individual fund statements and schedules, including its form and content, are fairly presented in accordance with accounting principles generally accepted in the United States of America.
  - The methods of measurement or presentation have not changed from those used in the prior period.
  - When the combining and individual fund statements and schedules are not presented with the audited financial statements, management will make the audited financial statements readily available to the intended users of the combining and individual fund statements and schedules no later than the date of issuance by the County of the supplementary information and the auditor's report thereon.
  - We acknowledge our responsibility to include the auditor's report on the supplementary information in any document containing the supplementary information and that indicates the auditor reported on such supplementary information.
  - We acknowledge our responsibility to present the supplementary information with the audited financial statements or, if the supplementary information will not be presented with the audited financial statements, to make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance by the entity of the supplementary information and the auditor's report thereon.
- With respect to the 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 other postemployment benefits (OPEB) schedule of changes in the total OPEB liability and related ratios (required supplementary information) accompanying the financial statements:
  - We acknowledge our responsibility for the presentation of the required supplementary information in accordance with accounting principles generally accepted in the United States of America.
  - We believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with accounting principles generally accepted in the United States of America.
  - The methods of measurement or presentation have not changed from those used in the prior period.
- We agree with the findings of specialist in evaluating the Landfill Closure and Postclosure Care Liability in accordance with GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Costs* and have adequately considered the qualification of the specialist in determining the amounts and disclosures used in the financial statements and the underlying records. We did not give or cause any instructions

to be given to specialist with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialist.

- Investments and derivative instruments are properly valued.
- We agree with the findings of specialist in evaluating the County's Derivative Instrument Liability for the interest rate swaps in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Investments* and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and the underlying records. We did not give or cause any instructions to be given to specialist with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialist.
- We agree with the findings of specialist in evaluating the accuracy, completeness, existence, and valuation associated with the County's proportionate share of the collective Net Pension Liability, and related deferred outflows and deferred inflows of resources, and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialist with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialist.
- We agree with the findings of specialist in evaluating the accuracy, completeness, existence, and valuation associated with the County's proportionate share of the collective Total Other Postemployment Benefits (OPEB) Liability, and related deferred outflows and deferred inflows of resources, and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialist with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialist.
- We believe that the actuarial assumptions and methods used to measure pension and other postemployment benefit liabilities and costs for financial accounting purposes are appropriate in the circumstances.
- We confirm that we maintain adequate controls for the evaluation, capturing and reporting of census data to Sacramento County Employees' Retirement System (SCERS) pension plan. Such data is accurately maintained and reported to SCERS and/or actuaries.
- We agree with the findings of specialist in evaluating the Insurance Claims Payable and have adequately considered the qualification of the specialist in determining the amounts and disclosures used in the financial statements and the underlying records. We did not give or cause any instructions to be given to specialist with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialist.
- The County is responsible for determining the fair value of certain investments as required by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The amounts reported represent the County's best estimate of fair value of investments required to be reported under the Statement. The County also has disclosed the methods and significant assumptions used to estimate the fair value of its investments.
- The County is responsible for determining the investment rate risk, concentration of credit risk, interest rate risk and custodial risk of certain investments as required by GASB Statement No. 40, *Deposit and Investment Risk Disclosures-an amendment of GASB Statement No. 3*.

- The County is responsible for evaluating its intangible assets as required by GASB Statement No 51, *Accounting and Financial Reporting for Intangible Assets*. The amounts reported represent the County's best estimate of the carrying value of its intangible assets as required to be reported under the Statement.
- The County has assessed internal service funds' reserve levels and rates charged to other County departments (including federal grants); all rates and funding levels are consistent with generally accepted accounting principles and the Uniform Guidance.
- All approved original and final budget amounts, amendments and variances have been incorporated into the budget information included in the financial statements as required by GASB 34.
- We have not completed the process of evaluating the effects that will result from adopting the future GASB pronouncements including GASB Statement Nos. 84, 87, 90, and 91. The County is therefore unable to disclose the effect that adopting these statements will have on its financial position and the changes in financial position when such statement are adopted.

Navdeep S. Gill
County Executive

Nancy Newton
Assistant County Executive

David Villanueva
Deputy County Executive

Britt Ferguson
Chief Fiscal Officer

Ben Lamera
Director of Finance

Joyce Renison
Assistant Auditor-Controller