



November 30, 2022

To the Board of Directors  
Monterey Regional Waste Management District  
Marina, California

We have audited the financial statements of the Monterey Regional Waste Management District (District) as of and for the year ended June 30, 2022, and have issued our report thereon dated November 30, 2022. Professional standards require that we advise you of the following matters relating to our audit.

**Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards**

As communicated in our letter dated June 3, 2022, 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 and major program compliance does not relieve you or management of its 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 District 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 and our firm, have complied with all relevant ethical requirements regarding independence.

### **Significant Risks Identified**

As stated in our auditor’s report, professional standards require us to design our audit to provide reasonable assurance that the financial statements are free of material misstatement whether caused by fraud or error. In designing our audit procedures, professional standards require us to evaluate the financial statements and assess the risk that a material misstatement could occur. Areas that are potentially more susceptible to misstatements, and thereby require special audit considerations, are designated as “significant risks”. We have identified the following as significant risks.

- Management Override of Controls – professional standards require auditors to address the possibility of management overriding controls. As per the audit professional standard, we identified as a significant risk that management of the organization may have the ability to override controls that the organization has implemented. Management may override the organization’s controls in order to modify the financial records with the intent of manipulating the financial statements to overstate the organization’s financial performance or with the intent of concealing fraudulent transactions.
- Improper Revenue Recognition – professional standards require auditors to presume that revenue recognition is a fraud risk. Therefore, improper revenue recognition was identified as a fraud risk due to possibility that revenue is not recorded in the proper period, in the incorrect amount, etc. either due to error or fraud.
- Inappropriate discount rate selection to be used in the new GASB 87, *Leases*. Professional standards require auditors to assess the appropriateness of the significant estimates used in calculation of the assets and liabilities. The Leases discount rate appropriateness was selected as a significant risk due to the possibility that inappropriate discount rate used to calculate the assets and liabilities may overstate the assets or understate the liabilities.

### **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 District is included in Note 2 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the fiscal year, other than the implementation of 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 involving the liability for closure and post-closure landfill, lease accounting discount rates, and the valuations for pension and postemployment benefits as follows:

- Management’s estimate of the landfill closure and post-closure costs is based on an engineering study prepared per state law.
- Management’s estimate of the lease accounting discount rates is based the Treasury SLGS rates over the period of lease agreements with adjustment for the District’s risk profile.
- Management’s estimate of the pension and postemployment benefits is based on actuarial valuations prepared in accordance with the methods prescribed by governmental accounting standards.

We evaluated the key factors and assumptions used to develop the management estimates and determined that they are reasonable in relation to the basic 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 the District’s financial statements relate to the following:

- **Note 2** summarizes the District’s accounting policies and describes significant changes in accounting policies due to the implementation of new accounting standards about leases. The effect of the restatement is further described at **Note 10**.
- **Note 3** describes the District’s investment portfolio, including certain risks required by the accounting standards for disclosure.
- **Note 6** describes the valuation of the District’s net pension liability and related deferred outflows and inflows of resources. Such amounts are sensitive to the underlying actuarial assumptions used including, but not limited to, the investment rate of return and discount rate. As disclosed, a one percent increase or decrease in the discount rate has a material effect on the District’s net pension liability.
- **Note 7** describes the District’s postemployment benefits liability and related deferred outflows and inflows of resources are sensitive to the underlying actuarial assumptions used including, but not limited to, the discount rate and healthcare cost trend rate. As disclosed, a one percent increase or decrease in the discount rate or the healthcare cost trend rate has a material effect on the District’s post-employment benefits liability.
- **Note 8** describes the District’s long-term debt activities including required principal and interest payments for debt service.

#### **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. Uncorrected misstatements or matters underlying those uncorrected 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.

The following summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

- Governmental accounting standards require that condensed financial information of blended component units be presented in the notes to the financial statements. Instead, the District's financial statements report the financial position and results of operations of the Financing Authority as detailed supplemental information.
- The GASB 31 fair value of investments year-end closing adjustment was omitted.

The effect of the uncorrected misstatements, including the effect of the reversal of prior year uncorrected misstatements as of and for the year ended June 30, 2022, is an overstatement of investment and net position of \$285,084.

## **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 District's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

## **Circumstances that Affect the Form and Content of the Auditor's Report**

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report. Our report contains an emphasis of matter for the implementation of the GASB Statement 87, *Leases*.

## **Representations Requested from Management**

We have requested certain written representations from management which are included in the management representation letter 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 District, 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 the District's auditors.

## **Other Information Included in Annual Reports**

Pursuant to professional standards, our responsibility as auditors for other information in documents containing the District'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 the schedule of changes in the net pension liability and related ratios, schedule of pension plan contributions, and schedule of changes in the District's 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 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 District and Monterey Regional Waste Management Authority combining statements 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.

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 governing board and management of the District and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Menlo Park, California