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# GOVERNANCE LETTER

To the Board of Directors
Sacramento Transportation Authority
Sacramento, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Sacramento Transportation Authority (Authority) for the year ended June 30, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

## Our Responsibility under U.S. Generally Accepted Auditing Standards (GAAS) and Government Auditing Standards

As stated in our engagement letter dated December 12, 2022, 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 were 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 will also perform 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.

## Planned Scope and Timing of the Audit, Significant Risks, and Other

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involves 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) misappropriation 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 noted no material weaknesses in internal control as a result of our audit. However, material weaknesses may exist that have not been identified.

We are required by the audit standards to identify potential risks of material misstatement during the audit process. We have identified the following significant risks of material misstatement as part of our audit planning: Management override of internal control and revenue recognition. These are the areas that the audit standards require at a minimum to be identified as significant risks.

We performed the audit according to the planned scope previously communicated to you in our engagement letter dated December 12, 2022.

## Significant Audit Matters

### *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 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. 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 estimate affecting the Authority's financial statements was the accrual of the unfunded pension and other postemployment benefit liabilities. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole. The accrual for the unfunded pension liability was determined by an actuarial valuation performed by CalPERS. The accrual for postemployment benefit liabilities was determined by an actuarial valuation, which is required to be performed by an Agency-contracted actuary every two years.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were the following:

- Information on the Authority's pension plans, including the Authority's share of the unfunded pension liability, is shown in Note 3. The Authority's share of the unfunded pension liability at June 30, 2023, the most recent measurement date, was $1,334,975, which is reflected as a liability in the Authority's financial statements as of June 30, 2023. The liability increased significantly during the year due to unrealized losses on investments in the plan as of the June 30, 2022 measurement date.

- The postemployment benefit (OPEB) disclosure in Note 5 shows that the Authority's postemployment benefits liability has decreased to $140,196 as of June 30, 2023. Retiree premium payments are being made on a pay-as-you-go basis and no contributions are made to a trust.

- The Authority has interest rate swaps that were entered into when the Series 2009 bonds were issued with a variable interest rate, to hedge the interest rate risk. Because of the decrease in interest rates since these bonds and related swaps were issued, the swaps have a negative fair value, which is described in Note 8 of the financial statements. However, since interest rates increased in 2023, the liability decreased.

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

*Difficulties Encountered in Performing the Audit*

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

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We proposed four adjustments during the audit as follows, which were agreed to by management and made in the accounting records:

- Record cash held in County pool at fair value
- Reclassify mitigation fee revenue received in July 2023 as due from other governments instead of cash
- Record amortization on deferred premium amount on bond refunding
- Reclassify fiscal year 2022/23 pension contribution paid in June 2023 to deferred outflow.

*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 audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter October 24, 2023.

*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 Management's Discussion and Analysis, Schedule of Proportionate Share of the Net Pension Liability and Schedule of Changes in the Total OPEB Liability and Related Ratios, 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 introductory and statistical sections, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*Restriction of Use*

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

Richardson & Company, LLP

October 24, 2023