



December 20, 2024

To the Board of Directors
Sacramento Area Council of Governments
Sacramento, California

We have audited the financial statements of the governmental activities and each major fund of the Sacramento Area Council of Governments (SACOG) as of and for the year ended June 30, 2024, and have issued our report thereon dated December 20, 2024. 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 and *Government Auditing Standards* and our Compliance Audit under the Uniform Guidance

As communicated in our letter dated May 7, 2024, 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 and to express an opinion on whether SACOG complied with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of SACOG's major federal programs. 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 SACOG solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Our responsibility, as prescribed by professional standards as it relates to the audit of SACOG's major federal program compliance, is to express an opinion on the compliance for each of SACOG's major federal programs based on our audit of the types of compliance requirements referred to above. An audit of major program compliance includes consideration of internal control over compliance with the types of compliance requirements referred to above as a basis for designing audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, as a part of our major program compliance audit, we considered internal control over compliance for these purposes and not to provide any assurance on the effectiveness of SACOG's internal control over compliance.

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.

We have provided our comments regarding internal controls during our audit in our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* dated December 20, 2024. We have also provided our comments regarding compliance with the types of compliance requirements referred to above and internal controls over compliance during our audit in our Independent Auditor's Report on Compliance with Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance dated December 20, 2024.

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 other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

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 SACOG is included in Note A to the financial statements. As described in Note O to the financial statements, management has changed the way expenditures are recognized in the State of Good Repair Fund. Accordingly, the accounting change has been retrospectively applied to the financial statements beginning July 1, 2023. Our opinions are not modified with respect to this matter. 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.

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 amounts related to the net pension liability and related deferred inflows of resources and deferred outflows of resources, the other post-employment benefits (OPEB) liability and related deferred inflows of resources and deferred outflows of resources.

Management's estimates of the net pension liability, related deferred inflows of resources and deferred outflows of resources, and disclosures are based on actuarial valuations and a proportionate share of the collective net pension liability of the California Public Employee's Retirement System (CalPERS) cost-sharing plan. We evaluated the key factors and assumptions used to develop management's estimates and determined that it is reasonable in relation to the financial statements taken as a whole.

Management's estimates of the net OPEB liability, related deferred inflows of resources and deferred outflows of resources, and disclosures are based on actuarial valuations. We evaluated the key factors and assumptions used to develop management's estimates and determined that it is reasonable in relation to the 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 SACOG's financial statements relate to:

- As disclosed in Note M of the financial statements, the valuation of SACOG's net pension liability and related deferred outflows/inflows of resources are sensitive to the underlying actuarial assumptions used including, but not limited to, the investment rate of return and discount rate. As disclosed in Note M, a one percent increase or decrease in the discount rate has a material effect on SACOG's net pension liability.
- As disclosed in Note N of the financial statements, the valuation of SACOG's net OPEB liability and related deferred outflows/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 in Note N, a one percent increase or decrease in the discount rate and healthcare cost trend rate has a material effect on SACOG's net 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. 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. There were no uncorrected or corrected misstatements identified as a result of our audit procedures.

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 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. As described in Note O to the financial statements, due to the change in the accounting method for recognizing expenditures in the State of Good Repair Fund, SACOG restated opening balances as of July 1, 2023. We have included an emphasis of matter in our report regarding this restatement.

Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated December 20, 2024.

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 SACOG, 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 conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as SACOG's auditors.

Other Information Included in Annual Reports

Pursuant to professional standards, our responsibility as auditors for other information, whether financial or nonfinancial, included in SACOG's annual reports, 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 will review the other information and will consider whether such information, or the manner of its presentation, is materially consistent with the financial statements.

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.

The consolidated financial statements include the financial statements of the Local Transportation Funds, the State Transit Assistance Fund, and the State of Good Repair Fund, which we considered to be significant components of the financial statements. The financial statements of the of Local Transportation Funds, the State Transit Assistance Fund, and the State of Good Repair Fund were audited by other auditors, and we did not assume responsibility for the audit performed by the other auditors, rather have referred to their audit in our report. Our decision to refer to the report of the other auditor is based upon (1) our evaluation of the materiality of the of the Local Transportation Funds and the State Transit Assistance and State of Good Repair

Fund, with respect to the consolidated financial statements as a whole; (2) the ability for group management to provide necessary audit evidence with respect to the Local Transportation Funds, the State Transit Assistance Fund, and the State of Good Repair Fund (3) our consideration of the timing requirements of the engagement. Our audit procedures with respect to the Local Transportation Funds, the State Transit Assistance Fund, and the State of Good Repair Fund included required correspondence with the other auditor, obtaining and reading their auditor's report and the related financial statements, and other procedures as considered necessary.

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

Eide Bailly LLP

Sacramento, California