



December 23, 2021

To the Honorable Mayor and Members of the City Council  
of the City of Santa Clarita  
Santa Clarita, California

We have audited the financial statements of the City of Santa Clarita, California (City) as of and for the year ended June 30, 2021, and have issued our reports indicated below thereon dated December 23, 2021:

1. Annual Comprehensive Financial Report (ACFR)
2. Transit Enterprise Fund Standalone Report
3. Air Quality Improvement Fund Standalone Report
4. Open Space Preservation District Report
5. Santa Clarita Watershed Recreation and Conservation Authority Report

We are currently performing the audit of the City's federal award programs (Single Audit) and anticipate issuing our reports thereon prior to March 31, 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 and *Government Auditing Standards***

As communicated in our letter dated May 3, 2021 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 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 the City 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. We have provided our report regarding internal controls in our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit

of the Financial Statements performed in Accordance with *Government Auditing Standards* dated December 23, 2021.

### **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 City is included in Note 1 to the financial statements. On July 1, 2020, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, and have restated opening balances as described in Note 23 of the financial statements. 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 management's estimates of fair value of investments, estimates related to pension and OPEB liabilities, and the related deferred inflows and outflows of resources, pension and OPEB expense, and disclosures, and estimates of the City's claims and judgements liabilities

Management's estimate of the fair value of investments is based on observable market inputs and information from the City's safekeeping custodian banks. Management's estimate of the pension and OPEB information and claims and judgements liabilities are based on actuarial valuations. We evaluated the key factors and assumptions used to develop the fair value of investments estimates, and estimate of the pension, OPEB and claims liabilities and determined that it is 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 City's financial statements relate to:

Pension liabilities and OPEB asset in Notes 12 and 13, respectively, are sensitive to the underlying actuarial assumptions used, including, but not limited to, the investment rate of return, discount rate, and for OPEB, healthcare cost trend rate. As disclosed in Notes 12 and 13, a 1% increase or decrease in the discount rate, or the healthcare cost trend rate, has a material effect on the City's net pension liabilities and OPEB asset.

The City's restatement due to the adoption of GASB Statement No. 84 is described in Note 23 to the financial statements.

### **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.

The City identified a misstatement, which was brought to our attention. The following summarizes the 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 and each applicable opinion unit.

Public Financing Authority Debt Service Fund (aggregate remaining fund information):

- Overstatement of interest expense of \$462 thousand
- Understatement of other financing sources of \$28 thousand
- Understatement of cash of \$490 thousand

The effect of these uncorrected misstatements, including the effect of the reversal of prior year uncorrected misstatements as of and for the year ended June 30, 2021, is an understatement of net change in fund balance of approximately \$490 thousand within the Public Financing Authority Debt Service Fund (aggregate remaining fund information).

## **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 City'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 management representation letter dated December 23, 2021.

## **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 City, 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 City'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 City'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 will review the information inputted into the data collection form 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.

## **Modification of the Auditor's Report**

We have made the following modification to our auditor's report. We included an emphasis of matter regarding the adoption of GASB Statement No. 84, *Fiduciary Activities*, as noted below:

As discussed in Notes 1 and 23 to the financial statements, the City has adopted the provisions of GASB Statement No. 84, *Fiduciary Activities*, which has resulted in a restatement of the net position as of July 1, 2020. Our opinions are not modified with respect to this matter.

## Group Audits

The financial statements include the financial activity of the Santa Clarita Public Financing Authority (Authority), a blended component unit of the City and the OPEB Plan Trust Fund, a fiduciary component unit of the City. For the purposes of our audit, we do not consider the Authority to be a significant component of the financial statements but do consider the OPEB Plan Trust Fund to be a significant component. Consistent with the audit of the financial statements as a whole, our audit included obtaining an understanding of the Authority and OPEB Plan Trust Fund and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements as it relates to the Authority and OPEB Plan Trust Fund and completion of further audit procedures.

This report is intended solely for the information and use of the members of the City Council and management of the City 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 "Eric Sully LLP".

Rancho Cucamonga, California