



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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Santa Clarita, California, (City) for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 24, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the City adopted Governmental Accounting Standards Board (GASB) Statements No. 72, *Fair Value Measurement and Application* and No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*, as of July 1, 2015. We noted no transactions entered into by the City 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 estimates affecting the City’s financial statements were:

Management’s estimate of the:

- The measurement of fair value of investments is based on observable market inputs and information from the City’s safekeeping custodian banks,
- Amounts related to the City’s other postemployment benefit (OPEB) asset are based on actuarial valuations,
- Amounts related to the net pension liability, deferred outflows of resources and deferred inflows of resources, pension expense, and the related disclosures, are based on actuarial valuations.

We evaluated the key factors and assumptions used to develop these estimates in determining that they appeared reasonable in relation to the financial statements taken as a whole.

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

Note 2 to the financial statements, discloses authorized investments, interest rate and credit risks, and fair value measurements.

Note 8 to the financial statements, discloses the advance refunding of the City's Lease Revenue Bonds Series 2007 and Certificates of Participation, Series 2007. In accordance with generally accepted accounting principles, the difference between the reacquisition price of the refunded bonds and the carrying amount of the refunded bonds is being deferred and amortized as a component of interest expense over the remaining life of the refunded bonds.

Note 13 to the financial statements, discloses the City's agent-multiple employer pension plan's net pension liability, and related deferred inflows and outflows of resources, and pension expense. The valuation of the net pension liability and related deferred inflows and outflows are sensitive to the underlying actuarial assumptions used, including but not limited to, the investment rate of return and discount rates. As disclosed in Note 13, a 1% increase or decrease in the discount rate has a material effect on the City's net pension liability.

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 Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Refer to Attachment A for adjustments identified as part of the audit and corrected by management.

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 dated December 21, 2016.

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 City'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 City'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 revenues, expenditures and changes in fund balance – budget and actual for the General fund and each major special revenue fund, schedule of funding progress, schedule of changes in the City's net pension liability and related ratios, and schedule of contributions, 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 combining and individual nonmajor fund financial statements budgetary comparison schedules and the schedule of expenditures of federal awards, 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 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 on Use

This information is intended solely for the use 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.



Rancho Cucamonga, California
December 21, 2016

**CITY OF SANTA CLARITA
SCHEDULE OF CORRECTED MISSTATEMENTS
JUNE 30, 2016**

ATTACHMENT A

Number	Fund	Account/Description	Income Statement		Balance Sheet	
			Dr.	Cr.	Dr.	Cr.
<1>	Transit Enterprise Fund	Dr. Deferred Inflows of Resources			\$ 171,140	
	Transit Enterprise Fund	Dr. Deferred Outflows of Resources				\$ 171,140
	Internal Service Funds (Governmental Activities)	Dr. Deferred Inflows of Resources			17,885	
	Internal Service Funds (Governmental Activities)	Dr. Deferred Outflows of Resources				17,885
	Governmental Activities	Dr. Deferred Inflows of Resources			4,680,700	
	Governmental Activities	Dr. Deferred Outflows of Resources				4,680,700
	<i>To adjust deferred inflows and outflows related to differences between projected and actual investment earnings arising in different measurement periods, which should be aggregated and reported as a net deferred inflow as of June 30, 2016.</i>					
<2>	Redevelopment Successor Agency - PPTF	Dr. Interest Expense	\$ 405,717			
	Redevelopment Successor Agency - PPTF	Cr. Interest Payable				405,717
	<i>To accrue interest payable within the Successor Agency Private-purpose Trust Fund for amounts due as of June 30, 2016.</i>					
<3>	Developer Fees Special Revenue Fund	Dr. Accounts Payable			1,242,645	
	Developer Fees Special Revenue Fund	Cr. Cash and Investments				1,242,645
	<i>To reverse accrual for check batch that was voided subsequent to payment, but not properly reversed from Accounts Payable and Cash and Investments.</i>					