



December 20, 2019

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, 2019, and have issued our report thereon dated December 20, 2019. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our letter dated June 28, 2019, 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 your 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 comments regarding internal control 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, 2019. 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, 2019.

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. As described in Note 1, the City adopted Governmental Accounting Standards Board (GASB) Statements No. 83, *Certain Asset Retirement Obligations*, No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, and No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, effective July 1, 2018. 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, and estimates related to pension and OPEB liabilities, and the related deferred inflows and outflows of resources, pension and OPEB expense, and disclosures.

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 is based on actuarial valuations. We evaluated the key factors and assumptions used to develop the 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 City's financial statements relate to:

Pension and OPEB liabilities 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 and OPEB liabilities.

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 following misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management:

- Long term liabilities were understated by \$850 thousand related to the 2019 Sheriff Station bonds.
- Interest income and administrative expense in the OPEB Trust fund were understated by \$92 thousand and was reclassified.
- Activity in the OPEB Trust fund were understated by \$225 thousand related to the implied subsidy estimates.
- The General Fund expenditure classifications were adjusted to properly reflect costs. The reclassification accumulated to approximately \$6.5 million.

For the Air Quality Improvement Special Revenue Fund standalone financial statements, the following entry was proposed, and corrected by management:

- Accrual for services performed during year ended June 30, 2019, but paid for subsequent to year-end of \$13 thousand.

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 20, 2019.

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.

This report is intended solely for the information and 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