

CITY OF SUNNYVALE

Report to the City Council

For the Year Ended June 30, 2015



Certified
Public
Accountants

CITY OF SUNNYVALE
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Honorable Mayor and the Members of
the City Council of the City of Sunnyvale
Sunnyvale, California

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sunnyvale, California (City) as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and U.S. Office of Management and Budget (OMB) Circular A-133, 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 4, 2015. Professional standards also require that we communicate to you other information related to our audit as discussed in the accompanying Required Communications section.

We have also provided a status of prior year recommendations made by us. In addition, we would like to thank City management and staff for the courtesy and cooperation extended to us during the course of our engagement.

This communication is intended solely for the information and use of the Mayor and City Council, management and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Walnut Creek, California
December 3, 2015

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REQUIRED COMMUNICATIONS

Significant Audit Results

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 City's basic financial statements. The City implemented three new Governmental Accounting Standards Board (GASB) pronouncements, consisting of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*; GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*; GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*. 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 financial statements were:

- *Fair value of investments.* The City's investments are generally carried at fair value, which is defined as the amount that the City could reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller and is generally measured by quoted market prices.
- *Estimated allowance for losses on notes and loans receivable.* The allowance for losses on notes and loans receivable was based on management's estimate regarding the likelihood of collectability.
- *Useful life estimates for capital assets.* The estimated useful lives of capital assets were based on management's estimate of the economic lives of capital assets.
- *Accrued landfill postclosure care costs.* The City has estimated the postclosure care costs of the Sunnyvale Landfill based on what it would cost to perform all currently mandated closure and postclosure care. Actual postclosure care costs may be different due to inflation variances, changes in technology, or changes in State or Federal regulations.
- *Actuarial data of the pension plan and other postemployment benefits plans.* The actuarial data for the pension and other postemployment benefits plans, including the funded status and required contributions of the plans, are based on actuarial calculations performed by the City's independent actuaries, which incorporate actuarial methods and assumptions.
- *Claims loss reserve.* The City is exposed to a variety of risks of loss due to general liability, workers' compensation and other claims, and records an estimate of these losses based on actuarial studies performed by third-party actuaries. These studies are prepared based on the City's prior claims history, which is used as a basis for extrapolating losses for known and incurred but not reported claims. Actual loss experience may vary from these estimates.

We evaluated the key factors and assumptions used to develop the accounting estimates described above in determining that they are reasonable in relation to the City's basic financial statements taken as a whole.

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REQUIRED COMMUNICATIONS (Continued)

Certain financial statements disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were the disclosures of the City's Pension Plans in Note 16, the Other Postemployment Benefits in Note 17, and the Redevelopment Successor Agency Trust in Note 21. The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no 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 clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

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 3, 2015.

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.

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REQUIRED COMMUNICATIONS (Continued)

Other Matters

We applied certain limited procedures to the management's discussion and analysis, the budgetary comparison schedules, information on the modified approach for City streets infrastructure capital assets, and information on the City's pension plans 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 fund financial statements and schedules, 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. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

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STATUS OF PRIOR YEAR RECOMMENDATION

Item 2013-02: Other Comment #2
New Pension Accounting Standards

The City will be subject to the provisions of this statement beginning with the fiscal year ending June 30, 2015. GASB Statement No. 68 replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and GASB Statement No. 50, *Pension Disclosures*, as they relate to pensions that are administered through trusts or similar arrangements meeting certain criteria. GASB Statement No. 68 changes the existing framework for accounting and financial reporting of pension costs and obligations of defined benefit pension plans and enhances note disclosures and required supplementary information for both defined benefit and defined contribution pension plans. It is likely that these new accounting and reporting standards will dramatically change the City's financial statements and disclosures and may result in the recognition of net pension liability.

We recommend the City develop a thorough implementation plan that addresses the unique and complex aspects of these new pension accounting and reporting standards will have on the City's financial statements next year.

Status of Recommendation:

The City implemented GASB Statement No. 68 during the fiscal year ending June 30, 2015.