



A new breed  
of professional  
services firm

Sacramento  
Walnut Creek  
San Francisco  
Oakland  
Los Angeles  
Century City  
Newport Beach  
San Diego

City Council of the City of Santa Rosa  
Santa Rosa, California

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Santa Rosa, California (City) for the fiscal year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and 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 Fiscal Year 2015 Audit Service Plan previously provided to you. 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 2 to the financial statements. As described in Note 2(r) to the basic financial statements, effective July 1, 2014, the City adopted the provisions of three Governmental Accounting Standards Board (GASB) pronouncements: 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*; and 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 City's financial statements were:

- The liabilities for general liability and workers' compensation claims are each based on an actuarial analysis. Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts and other economic and social factors.
- The actuarial data of the pension and other postemployment benefits plans are based on actuarial calculations performed by the City's independent actuaries, which incorporate actuarial methods and assumptions.
- The pollution remediation obligation is based upon the estimated cash flows determined by the State Underground Tank Fund project cost guidelines.
- Depreciation estimates for capital assets, including depreciation methods and useful lives assigned to depreciable capital assets, are determined based on experience.

- The accounts receivable valuation and allowance are based on the collectability of accounts from historical experience and trends.

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 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 the disclosure of the City's Pension Plans in Note 8 and the Other Postemployment Benefits (OPEB) Plan in Note 9. 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 31, 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 governmental unit'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 governmental unit'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 the Management's Discussion and Analysis, Schedule of Changes in the Net Pension Liability and Related Ratios, Schedule of Contributions for Pension Plans, Postemployment Healthcare Plan Schedule of Funding Progress, General Fund Schedule of Revenues – Budget and Actual, and General Fund Schedule of Expenditures – Budget and Actual (Budget Basis), 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 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 them.

### 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.

*Macias Gini & O'Connell LLP*

Sacramento, California  
December 31, 2015