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**Independent Auditors' 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***

The Board of Directors
Santa Clara Stadium Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Santa Clara Stadium Authority (the Stadium Authority), a component of the City of Santa Clara, California, which comprise the Stadium Authority's statement of financial position as of March 31, 2024, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 19, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Stadium Authority'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Stadium Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Stadium Authority'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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2024-01 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Stadium Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



The Stadium Authority's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Stadium Authority's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Stadium Authority's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

San Francisco, California
September 19, 2024

Finding 2024-001 - Adoption of new accounting pronouncements

Criteria

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Management is required to determine whether the entity maintained, in all material respects, effective internal controls over financial reporting based on the criteria established by a suitable framework, which is typically the Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

The COSO Framework views all five components and all 17 principles as relevant to an integrated system of internal controls, irrespective of the entity or its objectives. Controls must be designed and operating under each of the 17 principles to demonstrate that the principle has been achieved.

The component of internal control relevant to this finding is the Control Activities, specifically Principles 9 and 10 of the COSO Framework, which state that the organization identifies and assesses changes that could significantly affect the system of internal control, and that the organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels, respectively.

Conditions Found

Governmental Accounting Standards Board Statement No. 87, *Leases* (GASB 87) established a new accounting framework for all lease transactions. The Stadium Authority adopted GASB 87 in the prior year, which ended March 31, 2023. While preparing the March 31, 2024 financial statements, Management identified an error related to that adoption. Specifically, Management identified GASB 87 was not properly implemented because an existing deferred rent liability had not been evaluated and adjusted to beginning Net Position upon adoption of the new standard.

Cause

The deficiency was caused by the lack of an effective review process over the adoption of GASB 87 as the new accounting standard for leases. The review of the GASB 87 implementation for the company's ground lease, the review of the journal entries to eliminate certain aspects of the lease on the balance sheet, and the review of interest income and expense for the ground and stadium leases as part of the adoption of the new standard did not appropriately detect and prevent the error from occurring or being reported on the financial statements for the period.

Per our inquiries with Management, we understand that these errors were also precipitated by the late determination of the applicability of GASB 87 to the Stadium Authority on a stand-alone basis.

The review process for adopting new accounting standards was not designed with sufficient precision or effectiveness to ensure accurate financial reporting which subsequently caused the revision of prior year financial statements amounts in the 2024 report.

Effect

The misstatement resulted in an overstatement of total liabilities and understatement of total assets and net position. The correction of overstated expenses and understated revenues from previous periods, along with the adjustment to the deferred rent liability, resulted in a cumulative impact on net position of \$8.7M at March 31, 2023.

Management determined the error was not material to the March 31, 2023 financial statements. To correct the prior year error, Management adjusted the 2023 amounts reported in the March 31, 2024 financial statements, and included note disclosure 2(l) in the March 31, 2024 financial statements to summarize the adjustments and effects of the correction.

The error in the adoption of GASB 87 indicates an increased risk of misstatement associated with the adoption of other new accounting standards.

Recommendation

We recommend that Management develop a process to ensure all new accounting pronouncements are properly assessed, accurately applied, and appropriately presented in the year of implementation.

Management Response

Management agree with the recommendation and has developed additional processes to improve the implementation checklist for new accounting pronouncements. The misstatement was identified by Management through the current year's review process and we promptly took action to correct the misstatement and disclose the adjustment in the financial statements.