



Santa Clara Stadium Authority Audit results

Financial statements for the year ended March 31, 2018

August 27, 2018

POST MEETING MATERIAL

Introduction

To the Audit Committee of the Santa Clara Stadium Authority

We are pleased to have the opportunity to meet with you on August 27, 2018 to discuss the results of our audit of the financial statements of the Santa Clara Stadium Authority (the Authority) as of and for the year ended March 31, 2018. Our audit was conducted in accordance with the terms established in the audit engagement letter dated January 17, 2018.

We are providing this document in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. We will be pleased to elaborate on the matters covered in this document when we meet.

Our audit is substantially complete. Subject to the Board's approval, we expect to be in a position to complete our audit of the Authority's financial statements on August 29, 2018, provided that the outstanding matters noted on page 13 of this document are satisfactorily resolved.

We draw your attention to the following communications included in the appendix to this document:

- Newly effective accounting standards (14)
- Responsibilities (15-17)

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Our audit results

Auditors' report	Page 3
As of August 27, 2018, do we expect to:	
— modify the opinion in our auditors' report?	No
— include an emphasis-of-matter or other-matter paragraph in our auditors' report?	Yes

Uncorrected audit misstatements
No matters to report.

Control deficiencies	Pages 6-7
Material weaknesses	No

Audit matters	Pages 4-5
<i>Were any significant financial statement matters identified related to:</i>	
Significant accounting practices	
— Accounting policies?	Yes
- Cash and cash equivalents and restricted cash	
- Accounts receivable	
- Capital assets	
- Unearned revenue and revenue recognition	
— Accounting estimates?	No
— Financial statement disclosures?	Yes
- Subsequent events relating to settlement of Stadium Facility Rent Arbitration in June 2018	
Other matters	No



Auditors' report

- No modification of the standard audit report
- Expected language of modified report, including:
 - Emphasis of matter paragraph

“As discussed in note 2 to the financial statements, the financial statements present only the Santa Clara Stadium Authority and do not purport to and do not present fairly the financial position of the City of Santa Clara, California as of March 31, 2018 and 2017, the changes in its financial position, or, where applicable, its cash flows for the years then ended, respectively, in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this manner.”

- Other matter paragraph

“U.S. generally accepted accounting principles require that the management’s discussion and analysis on pages 3–8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.”

Significant accounting policies

Description of significant accounting policies

- Cash and cash equivalents and restricted cash
- Accounts receivable
- Capital assets
- Unearned revenue and revenue recognition

Audit findings

Qualitative aspects

Refer to Note 2 of the financial statements for the detailed description of the significant accounting policies. Management has appropriately applied such policies to the Entity's books and records as of and for the year ended March 31, 2018. No issues identified by the engagement team during the period under audit.

Audit procedures on certain significant accounts

- Cash and cash equivalents and restricted cash
 - Cash reconciliation testing
 - Cash confirmation testing
- Accounts receivable
 - Recalculation of naming rights receivable and revenue
 - Confirmation of Non-NFL net receivable
- Capital assets
 - Rollforward procedures
 - Depreciation recalculation testing
 - Impairment evaluation
- Unearned revenue and revenue recognition
 - Straight line rental income recalculation
 - Sampling of SBL current year payments; recalculation of revenue amortization
 - Non-NFL revenue and expense sampling
 - Ticket surcharge recalculation
- Stadium Manager expense
 - Sampling of expense population; vouching to invoices and payment support
 - Verified the expense allocation between the Authority and StadCo in accordance with the Stadium Lease agreement

Significant financial statement disclosures

Description of significant financial statement disclosures

- Subsequent events disclosure relating to settlement of Stadium Facility Rent Arbitration in June 2018

Audit findings

Qualitative aspects

On June 18, 2018, the arbitrator entered an Interim Arbitration Award relating to the stadium facility rent arbitration in favor of the Stadium Authority and against StadCo. This award adjusted the facility rent from \$24.50 million to \$24.76 million, an increase of \$262,000. This increase is retroactive to the first lease year resulting in a total amount owed of \$1.05 million for the first four lease years, through March 31, 2018.

Management has appropriately accounted for the arbitration settlement as a non-recognized subsequent event, and the gain in rent since lease inception would be recognized during the period it was realized (FY 2019). This is consistent with paragraph 83(a) of FASB Concepts Statement No.5, Recognition and Measurement in Financial Statements of Business Enterprises, which states that revenues and gains generally are not recognized until realized or realizable.

Internal control related matters

KPMG responsibilities

- The purpose of our audit was to express an opinion on the financial statements
- Our audit included consideration of internal control over financial reporting in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of internal control.
- We are not expressing an opinion on the effectiveness of internal control
- Our consideration of internal control 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.

Material weakness

A deficiency, or a combination of deficiencies, in internal control over financial reporting, 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 reasonably possibility exists when the likelihood of an event occurring is either reasonably possible or probably. Reasonably possible is defined as the chance of the future event or events occurring is more than remote but less than likely. Probable is defined as the future event or events are likely to occur.

Significant deficiency

A deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Significant deficiencies and material weaknesses in internal control

- **There were no significant deficiencies or material weaknesses identified during the audit.**



Required communications and other matters

Type	Response
Related parties	Certain costs, primarily staff salaries and related costs, are charged to the Authority from the City of Santa Clara. Not considered a significant related party transaction.
Fraud	No actual or suspected fraud involving management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit.
Noncompliance with laws and regulations	No matters to report.
Subsequent events	No matters to report.
Other information	No material inconsistencies were identified related to other information in the annual report.
Written representations	Engagement letter signed on January 17, 2018. Management representation letter is currently outstanding to be provided by the engagement team to management

Type	Response
Significant difficulties, if any, encountered during the audit	No matters to report.
Disagreements with management, if any	No matters to report.
Significant findings or issues discussed, or the subject of correspondence, with management	No matters to report.
Management's consultation with other accountants	No matters to report.
Other findings or issues	No matters to report.

Audit fees

	2018	2017
Audit	\$ 90,000	\$ 80,000



Audit matters

Significant risks

Our audit response and findings

Significant risks	Our audit response and findings
Management override of controls	<p><i>Internal Controls</i></p> <ul style="list-style-type: none">- Tested control covering management review of journal entries (segregation of duties) <p><i>Substantive Procedures</i></p> <ul style="list-style-type: none">- Scanned the trial balance to ensure no abnormal or material untested accounts- Inquired of management as to their knowledge of management override of controls- Obtained an understanding of the relevant IT systems and considered areas susceptible to management override- Tested post closing journal entries

Independence

In our professional judgment, we are independent with respect to the Authority, as that term is defined by the professional standards.



Supplemental communications

Contents

Outstanding matters

Newly effective accounting standards

Responsibilities

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Outstanding matters

Outstanding matters as of August 27, 2018:

- Debt compliance certifications
- Management representation letter
- Audit documentation assembly

The following reports will be issued:

- Financial statements
- Debt compliance letter
- ICOFR (Internal Control over Financial Reporting) letter

New standards

Newly effective accounting standards

Standards	Effective for years ending March 31			
	2018	2019	2020	2021
GASB Statement No. 83 – Certain Asset Retirement Obligations			✓	
GASB Statement No. 87 - Leases				✓

Responsibilities

Management responsibilities – Financial statements	<ul style="list-style-type: none"> — Preparation and fair presentation of the financial statements, including disclosures in conformity with U.S. GAAP — Adjusting the financial statements to correct material misstatements and affirming in the representation letter that the effects of any uncorrected misstatements aggregated by the auditor are immaterial, both individually and in the aggregate, to the financial statements taken as a whole
Management responsibilities – ICOFR	<ul style="list-style-type: none"> — 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 responsibilities – Other	<ul style="list-style-type: none"> — To provide the auditor with: <ol style="list-style-type: none"> 1) access to all information of which management is aware is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters; 2) additional information that the auditor may request from management for the purpose of the audit; and 3) unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence — Identifying and ensuring that the Entity complies with laws and regulations applicable to its activities, and for informing the auditor of any known material violations of such laws and regulations — Providing the auditor with a letter confirming certain representations made during the audit, that includes but is not limited to management's: <ol style="list-style-type: none"> 1) disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Entity's financial reporting 2) acknowledgement of their responsibility for the design, implementation, and maintenance of internal controls to prevent and detect fraud
Audit Committee responsibilities	<ul style="list-style-type: none"> — Oversight of the financial reporting process and ICOFR — Oversight of the establishment and maintenance by management of programs and controls designed to prevent, deter, and detect fraud
Management and the Audit Committee responsibilities	<ul style="list-style-type: none"> — Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards — Ensuring that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in the entity's financial statements.

The audit does not relieve management or the Audit Committee of their responsibilities.

Responsibilities (continued)

KPMG – Audit objectives	<ul style="list-style-type: none">— Forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit Committee are prepared, in all material respects, in accordance with U.S. GAAP
KPMG responsibilities – Audit	<ul style="list-style-type: none">— Performing the audit in accordance with U.S. GAAS and that the audit is designed to obtain reasonable, rather than absolute, assurance about whether the financial statements as a whole are free from material misstatement— Performing 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

Responsibilities (continued)

KPMG responsibilities – Communications

- Communicating significant matters related to the financial statement audit that are in our professional judgment, relevant to the responsibilities of the Audit Committee in overseeing the financial process. U.S. GAAS does not require us to design procedures for the purpose of identifying matters to communicate to the Audit Committee
- Communicating if we suspect or identify noncompliance with laws and regulations exist, unless matters are clearly inconsequential
- Communicating to management and the Audit Committee in writing all significant deficiencies and material weaknesses in internal control identified during the audit, including those that were remediated during the audit and reporting to management in writing all deficiencies noted during our audit that, in our professional judgment, are of sufficient importance to merit management's attention. The objective of our audit of the financial statements is not to report on the Entity's internal control
- Conducting the audit in accordance with professional standards and complying with the rules and responsibility of the Code of Professional Conduct of the American Institute of Certified Public Accountants and the official standards of relevant CPA Societies, and relevant state boards of accountancy
- Communicating to the Audit Committee circumstances, if any, that affect the form and content of the auditors' report
- Communicating if we plan to withdraw from the engagement and the reasons for the withdrawal
- Communicating to the Audit Committee if we conclude no reasonable justification for a change of the terms of the audit engagement exists and we are not permitted by management to continue the original audit engagement
- When applicable, we are also responsible for communicating particular matters required by law or regulation, by agreement with the entity, or by additional requirements applicable to the engagement
- Communicating if we have identified or suspect fraud involving; (a) management, (b) employees who have significant roles in internal control, (c) others, when the fraud results in a material misstatement in the financial statements, and (d) other matters related to fraud that are, in the auditors' professional judgment, relevant to the responsibilities of the Audit Committee
- Communicating significant findings and issues arising during the audit in connection with the entity's related parties.
- Communicating conditions and events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time



Questions?

For additional information and Audit Committee resources, including National Audit Committee Peer Exchange series, a Quarterly webcast, and suggested publications, please visit KPMG's Audit Committee Institute (ACI) at www.kpmg.com/ACI.

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