

9/10/19

Item #2



Santa Clara Stadium Authority Audit results

Financial statements for the year ended March 31, 2019

September 10, 2019

Introduction

To the Audit Committee of Santa Clara Stadium Authority

We are pleased to have the opportunity to meet with you on September 10, 2019 to discuss the results of our audit of the financial statements of Santa Clara Stadium Authority (the Authority) as of and for the year ended March 31, 2019. Our audit was conducted in accordance with the terms established in the audit engagement letter dated May 13, 2019.

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 September 12, 2019, provided that the outstanding matters noted on page 15 of this document are satisfactorily resolved.

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

- Outstanding matters (15)
- Newly effective accounting standards 1(6)
- Responsibilities (17-19)

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Audit results required communications and other matters summary

Communication topic	Response
Scope of audit	Our audit of the financial statements of the Authority as of and for the year ended March 31, 2019, was performed in accordance with auditing standards generally accepted in the United States of America.
Auditors' report	<p>As of September 10, 2019, we expect to issue an unqualified opinion on the financial statements of the Authority.</p> <p>Further, it is expected that the audit opinion will include an emphasis of matter paragraph and other matter paragraph in our auditors' report.</p> <ul style="list-style-type: none"> - Emphasis of matter paragraph <p>"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, 2019 and 2018, 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."</p> <ul style="list-style-type: none"> - Other matter paragraph <p>"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."</p>
Significant accounting policies	<p>Significant accounting policies and practices relate to:</p> <ul style="list-style-type: none"> - Cash and cash equivalents and restricted cash - Accounts receivable - Capital assets - Unearned revenue and revenue recognition <p>Refer to slide 8 for further detail and our response.</p>



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Audit results required communications and other matters summary (continued)

Communication topic	Response
Significant accounting estimates	No matters to report.
Significant financial statement disclosures	No matters to report.
Significant risks and other significant audit matters	<p>Significant risks and other significant audit matters relate to:</p> <ul style="list-style-type: none"> - Management override of controls <p>Refer to slide 9 for further detail and our response.</p>
New accounting pronouncements	No new accounting pronouncements are applicable to the Authority.



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Audit results required communications and other matters summary (continued)

Communication topic	Response
Uncorrected misstatements	No matters to report.
Corrected misstatements	No matters to report.
Financial presentation and disclosure omissions	No matters to report.



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Audit results required communications and other matters summary (continued)

Communication topic	Response
Control deficiencies	There are no matters to report.
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.
Other information in documents containing audited financial statements	Our responsibility with respect to information in a document does not extend beyond the financial information identified in our report, and we have no obligation to perform any procedures to corroborate other information contained in a document. However, we do have a responsibility to read the other information and consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. As a result of our consideration of the other information, no material inconsistencies or material misstatements of facts were identified related to other information.



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Audit results required communications and other matters summary (continued)

Communication topic	Response	Communication topic	Response
Illegal acts or fraud	No actual or suspected fraud involving management, employees with significant roles in internal control, or instances where fraud results in a material misstatement in the financial statements were identified during the audit.	Significant difficulties encountered during the audit	No matters to report.
Noncompliance with laws and regulations	No matters to report.	Disagreements with management	No matters to report.
Going concern	No matters to report.	Significant findings or issues discussed, or the subject of correspondence, with management	No matters to report.
Non-GAAP	No matters to report.	Management's consultation with other accountants	No matters to report.
Subsequent events	No matters to report.		
Other findings or issues	No matters to report.	Material written communications	Engagement letter, signed on May 13, 2019. Management representation letter is currently outstanding to be provided by the engagement team to management.

Audit results required communications and other matters summary (continued)

Communication topic	Response
Independence	In our professional judgement, we are independent with respect to the Authority, as the that term is defined by the professional standards.
Fees	Refer to slide 10 for audit services fee information.
Audit quality & transparency	Refer to slide 11 for our internal quality control documents.

Significant accounting policies and practices

Description of significant accounting policies and practices	Audit findings
<ul style="list-style-type: none"> — Cash and cash equivalents and restricted cash — Accounts receivable — Capital assets — Unearned revenue and revenue recognition 	<p>Qualitative aspects</p> <p>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, 2019. No issues identified by the engagement team during the period under audit.</p> <p>Audit procedures on certain significant accounts</p> <ul style="list-style-type: none"> — Cash and cash equivalents and restricted cash <ul style="list-style-type: none"> — Cash reconciliation testing — Cash confirmation testing — Accounts receivable <ul style="list-style-type: none"> — Recalculation of naming rights receivable and revenue — Confirmation of Non-NFL net receivable — Capital assets <ul style="list-style-type: none"> — Rollforward procedures — Depreciation recalculation testing — Impairment evaluation — Unearned revenue and revenue recognition <ul style="list-style-type: none"> — 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 <ul style="list-style-type: none"> — 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	Audit findings
<p>Management override of controls</p>	<p>Internal Controls</p> <ul style="list-style-type: none"> - Tested control covering management review of journal entries (segregation of duties) <p>Substantive Procedures</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

Fees

	2019	2018
Audit	\$ 104,000	\$ 90,000



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Enhancing audit quality and transparency

We are providing as supplemental information the following documents:

- Audit Quality Report
- Transparency Report
- Transparency Report – Supplement: Assisting Audit Committees in Meeting NYSE Rules on Auditor Communications

[The firm's internal quality control documents are available at

<https://home.kpmg/us/en/home/about/kpmg-quality-and-transparency-report.html>]



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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 reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable. 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.



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Required inquiries

The following inquiries are required in accordance with AU-C 260:

Audit Committee inquiries	<ul style="list-style-type: none">— Is the Committee aware of matters relevant to the audit, including, but not limited to, violations or possible violations of laws and regulations?— What are the Committee's views about fraud risks in the Authority?— Does the Committee have knowledge of fraud, alleged fraud, or suspected fraud affecting the Authority?— Who is the appropriate person (Audit Committee chair or full committee) for communication of audit matters during the audit?— How are responsibilities allocated between management and the Audit Committee?— What are the entity's objectives and strategies and related business risks that may result in material misstatements?— Are there any areas that warrant particular attention during the audit and additional procedures to be undertaken?— Is the Committee aware of any significant communications with regulators?— What are the Committee's attitudes, awareness, and actions concerning (a) the entity's internal controls and their importance in the entity, including oversight of effectiveness of internal controls, and (b) detection of or possibility of fraud?— Is the Committee aware of any developments in financial reporting, laws, accounting standards, corporate governance, and other related matters?— Have there been any actions taken based on previous communications with the auditor?
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Supplemental communications

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Outstanding matters

Outstanding matters as of September 10, 2019:

- Management representation letter
- Audit documentation assembly
- Debt Compliance Certificate
- Legal confirmation (1 outstanding reply)

The following reports will be issued:

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

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"> Fairly presenting 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 – ICFR	<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"> 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; additional information that the auditor may request from management for the purpose of the audit; and 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"> disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Authority's financial reporting 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 internal control over financial reporting (ICFR) Oversight of the establishment and maintenance by management of programs and controls designed to prevent, deter, and detect fraud

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

Responsibilities (continued)

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.
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 ICFR 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 ICFR
KPMG responsibilities – Other information in documents containing financial statements	<ul style="list-style-type: none"> The auditors' report on the financial statements does not extend to other information in documents containing audited financial statements, excluding required supplementary information The auditor's responsibility is to make appropriate arrangements with management or the Audit Committee to obtain information prior to the report release date and to read the other information to identify material inconsistencies with the audited [financial statements or misstatement of facts Any material inconsistencies or misstatement of facts that are not resolved prior to the report release date, and that require revision of the other information, may result in KPMG modifying or withholding the auditors' report or withdrawing from the engagement Communicate any procedures performed relating to the other information and the results of those procedures.



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Responsibilities (continued)

KPMG responsibilities – Communications	<ul style="list-style-type: none"> 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 Authority'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
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Questions?

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