

**CITY OF MANTECA**  
**REQUIRED COMMUNICATIONS**  
**FOR THE YEAR ENDED**  
**JUNE 30, 2019**

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REQUIRED COMMUNICATIONS**

**For the Year Ended June 30, 2019**

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## REQUIRED COMMUNICATIONS

To the City Council of  
the City of Manteca, California

We have audited the basic financial statements of the City of Manteca, California, as of and for the year ended June 30, 2019. Professional standards require that we communicate to you the following information related to our audit under generally accepted auditing standards and *Government Auditing Standards* and the *Uniform Guidance*.

### **Significant Audit Findings**

#### ***Accounting Policies***

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 financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year, except as follows:

The following pronouncement became effective, but did not have a material effect on the financial statements:

#### **GASB 88 – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements***

The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The pronouncement became effective and resulted in revisions to the debt-related disclosures in Note 8 to the financial statements.

The following pronouncement became effective, but did not have an effect on the financial statements:

**GASB 83 – Certain Asset Retirement Obligations**

***Unusual Transactions, Controversial or Emerging Areas***

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. However, events that occurred during or subsequent to the year ended June 30, 2019 discussed below could have an impact on the financial statements:

***Transient Occupancy Tax Sharing Agreement***

As discussed in Note 14F to the financial statements, the City entered into a Disposition and Development Agreement (DDA) with a Developer to construct a destination resort (Project), as well as a Development Agreement (DA). Under the terms of the DA, beginning when TOT revenue is first received from the Project and continuing 25 years thereafter, the TOT revenue received by the City on a quarterly basis is to be allocated to both the developer and the City. A portion of that TOT revenue allocated to the City is to be used to pay various City development fees imposed on the project. As of June 30, 2019, the deferred fees due from the developer totaling \$10,707,553 have been recorded as accounts receivable in the applicable governmental and enterprise funds.

The Project was expected to open in fiscal year 2020, but due to the COVID-19 pandemic discussed below, the opening has been delayed to March 2021, which means the earliest the City may start collecting TOT revenue is July 2021. Since the payment of the development fees is contingent upon the collection of the TOT revenue, the timing of the collection of the development fees in each applicable governmental and enterprise fund cannot be determined at this time.

***COVID-19 Pandemic***

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders for all but those deemed essential services. While the business disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings and whether shelter in place orders will be reinstated. Although many of the City's services are considered essential, City Hall was closed to the public, certain other services transitioned to online-only and because the City's major revenue sources, including businesses that collect sales and transient occupancy taxes, are directly impacted by these events, it is probable that this matter will negatively impact the City. However, the ultimate financial impact and duration cannot be reasonably estimated at this time.

## ***Accounting Estimates***

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 estimate(s) affecting the City's financial statements were:

*Estimated Fair Value of Investments:* As of June 30, 2019, the City held approximately \$315 million of cash and investments as measured by fair value as disclosed in Note 3 to the financial statements. Fair value is essentially market pricing in effect as of June 30, 2019. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2019.

*Estimated Net Pension Liabilities and Pension-Related Deferred Outflows and Inflows of Resources:* Management's estimate of the net pension liabilities and related deferred outflows/inflows of resources are disclosed in Note 10 to the financial statements and are based on accounting valuations determined by the California Public Employees Retirement System as well as actuarial studies determined by a consultant, which are based on the experience of the City. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

*Estimated Total OPEB Liability and OPEB Related Deferred Outflows and Inflows of Resources:* Management's estimate of the total OPEB liability and related deferred outflows/outflows of resources are disclosed in Note 11 to the financial statements and is based on actuarial studies determined by a consultant, which are based on the experience of the City. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

*Estimate of Depreciation:* Management's estimate of the depreciation is based on useful lives determined by management. These lives have been determined by management based on the expected useful life of assets as disclosed in Note 7 to the financial statements. We evaluated the key factors and assumptions used to develop the depreciation estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

*Estimated Fair Value of Swaps:* The Successor Agency to the Redevelopment Agency has one Swap arrangement with a negative fair value in favor of the counterparty totaling \$10.4 million, as disclosed in Note 16D to the financial statements. Fair value is essentially market pricing in effect as of June 30, 2019. The fair value is not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2019.

*Estimate of Compensated Absences:* Accrued compensated absences which are comprised of accrued vacation, holiday, and certain other compensating time is estimated using accumulated unpaid leave hours and hourly pay rates in effect at the end of the fiscal year as disclosed in Note 1G to the financial statements. We evaluated the key factors and assumptions used to develop the accrued compensated absences and determined that it is reasonable in relation to the basic financial statements taken as a whole.

*Estimated Claims Liabilities:* Management's estimate of the claims liabilities payable is disclosed in Note 13 to the financial statements and is based on the prior year claims experience of the City. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

### ***Disclosures***

The financial statement disclosures are neutral, consistent, and clear.

### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit. However, the audit was delayed significantly due to the turnover of staff in the Finance Department and the need for interim/acting personnel and new Finance staff, along with multiple consultants, to complete analyses and schedules needed to complete the 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/certain 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, other than to record the prior fiscal year 2018 closing entries related to the OPEB liabilities and related deferred outflows/inflows of resources and claims payable, as well as the fiscal year 2019 post-closing entries related to cash and investments, accounts receivable, interfund transactions, capital assets, pension liabilities and related deferred outflows/inflows of resources, and OPEB liabilities and related deferred outflows/inflows of resources, as discussed in Memorandum on Internal Control comments 2019-001 and 2019-002.

Professional standards require us to accumulate all known and likely uncorrected misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have no such misstatements to report to the City Council.

### ***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 a management representation letter dated January 7, 2021.



### ***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.

### **Other Information Accompanying the Financial Statements**

We applied certain limited procedures to the required supplementary information that accompanies and 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 required supplementary information and do not express an opinion or provide any assurance on the required supplementary information.

We were engaged to report on the supplementary information which accompany the financial statements, but are not required supplementary information. 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 required supplementary information. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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



Pleasant Hill, California  
January 7, 2021

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