To the Honorable Mayor and Members of the City Council
of the City of Culver City
Culver City, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Culver City (the “City”) for the year ended June 30, 2016, and have issued our report thereon dated December 16, 2016. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards, Government Auditing Standards, and Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (the “Uniform Guidance”)

As stated in our engagement letter dated July 14, 2016, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the City’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

As part of obtaining reasonable assurance about whether the City’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with the Uniform Guidance, we examined, on a test basis, evidence about the City’s compliance with the types of compliance requirements described in the “U.S. Office of Management and Budget (“OMB”) Compliance Supplement” applicable to each of its major federal programs for the purpose of expressing an opinion on the City’s compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City’s compliance with those requirements.

Generally accepted accounting principles provide for certain required supplementary information (“RSI”) to supplement the basic financial statements. Our responsibility with respect to the Management’s Discussion and Analysis, the Budgetary Comparison Schedules – General Fund and Culver City Housing Authority Special Revenue Fund, the Schedule of Changes in Net Pension Liability and Related Ratios, the Schedule of Contributions – Pension, the Schedules of Changes in Net OPEB Liability and Related Ratios, and the Schedule of Contributions - OPEB, which are RSI that supplement the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.
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We have been engaged to report on the Combining and Individual Fund Financial Statements and Schedules of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual, which accompany the financial statements but are not RSI. Our responsibility for this supplementary information, as described by professional standards, is to evaluate the presentation of this supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

We have not been engaged to report on the Introductory and Statistical Sections which accompany the financial statements but are not RSI. Our responsibility with respect to this other information in documents containing the audited financial statements and auditor’s report does not extend beyond the financial information identified in this report. We have no responsibilities for determining whether this other information is properly stated. This other information is not audited and we do not express an opinion or provide any assurance on it.

**Planned Scope and Timing of the Audit**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriations of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity.

We performed the audit according to the planned scope and timing previously communicated to you.

**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 1 to the basic financial statements.

**New Accounting Standards**

GASB has issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes and also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This statement became effective for periods beginning after June 15, 2015 and did not have any measurement impact on the City’s investment portfolio, except for the additional disclosure regarding to the measurement input as discussed in Note 3 of the City’s financial statements for the year ended June 30, 2016.
GASB has issued Statement No. 73, *Accounting and Financial reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. This statement became effective for periods beginning after June 15, 2015. This statement did not have a significant impact on the City’s financial statements for the year ended June 30, 2016.

GASB has issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement establishes standards relating to the hierarchy of generally accepted accounting principles (“GAAP”). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement became effective for periods beginning after June 15, 2015, and should be applied retroactively. This statement did not have a significant impact on the City’s financial statements for the year ended June 30, 2016.

GASB has issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This statement establishes standards relating accounting and financial reporting for certain external investment pools and pool participants. This statement became effective for periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. This statement did not have a significant impact on the City’s financial statements for the year ended June 30, 2016.

No other new accounting policies were adopted and the application of existing policies was not changed during 2016. 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:

- Management’s estimate of the investment fair market value is based on information provided by the State of California for investment in the Local Agency Investment Fund, by Bank of New York Mellon, the custodian for the investments in the U.S. Treasury Notes (based on quoted prices in active markets at the measurement date) and in the U.S. government sponsored enterprise securities and the medium term notes (based on observable inputs through corroboration with market data) and by U.S. Bank, the trustee for investment in U.S. Treasury obligations (based on quoted prices in active market at the measurement date) and in the commercial paper (based on observable inputs through corroboration with market data). We evaluated the key factors and assumptions used to develop the investment fair market value in determining that it is reasonable in relation to the financial statements taken as a whole.
Management’s estimate of the depreciation on capital assets is based on the industry standard and past experience on actual useful life of the asset groups. We evaluated the key factors and assumptions used to develop the depreciation on capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Management’s estimate of the annual other post employment benefit (“OPEB”) cost is based on the actuarial valuation. We evaluated the key factors and assumptions used to develop the annual OPEB cost in determining that it is reasonable in relation to the financial statements taken as a whole.

Management’s estimate of the net pension liabilities is based on the actuarial valuation on total pension liability and based on audited financial statements on fiduciary net position for CalPERS plans. We evaluated the key factors and assumptions used to develop the net pension liability in determining that it is 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:

- Note 1 – Summary of Significant Accounting Policies
- Note 2 – Stewardship, Compliance, and Accountability
- Note 10 – Claims and Judgments
- Note 11 – Pension Plans
- Note 12 – Other Post-employment Benefits (“OPEB”)
- Note 14 – Contingencies
- Note 16 – Related Parties
- Note 18 – Subsequent Events

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.

**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 16, 2016 and March 27, 2017.
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.

Emphasis of Matter

We also included the following emphasis of matter paragraph related to net pension liability in our report dated December 16, 2016:

Net Pension Liabilities and Net Other Post-Employment Benefit Liabilities

The Unrestricted Net Position is in deficit in the amount of $(161,901,567) includes $(156,905,843) reported under Governmental Activities and $(4,995,724) reported under Business-Type Activities. It is mainly due to the Net Pension Liabilities and Net OPEB Liabilities as discussed Note 11 and Note 12, respectively. Aggregate Net Pension Liabilities for Governmental Activities and Business-Type Activities are in the amount of $150,910,760 and $21,615,246, respectively. Net OPEB Liabilities for Governmental Activities and Business-Type Activities are in the amount of $86,446,472 and $12,851,528, respectively. Our opinion is not modified with respect to this matter.

Other Matters

We applied certain limited procedures to the Management’s Discussion and Analysis, the Budgetary Comparison Schedules – General Fund and Culver City Housing Authority Special Revenue Fund, the Schedule of Changes of in Net Pension Liability and Related Ratios, the Schedule of Contributions – Pension, the Schedules of Changes in Net OPEB Liability and Related Ratios, and the Schedule of Contributions - OPEB, which are RSI that supplement 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.
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We were engaged to report on the Combining and Individual Fund Financial Statements and the Schedules of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual, 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 it.

**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.

Very truly yours,

[Signature]

Santa Ana, California