

CITY OF SACRAMENTO

Report to Management

For the Fiscal Year Ended June 30, 2006

CITY OF SACRAMENTO
REPORT TO MANAGEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Table of Contents

	<i>Page(s)</i>
Required Communications	1-3



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Honorable Mayor,
Members of the City Council
and Management
Sacramento, California

We have audited the financial statements of the City of Sacramento (City) for the fiscal year ended June 30, 2006, and have issued our report thereon dated December 8, 2006. Professional auditing standards require auditors to communicate with the audit committee (or in the absence, the governing body) on a number of subjects. The following information satisfies these requirements, and is solely intended for the use of the Honorable Mayor, City Council and management.

I. The Auditor's Responsibility Under Generally Accepted Auditing Standards and Government Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated April 9, 2006, our responsibility as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance, and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

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 *OMB Circular A-133*.

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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, 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) Circular A-133 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.

II. Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements. For the fiscal year ended June 30, 2006, the Sacramento Housing and Redevelopment Agency is no longer reported as a blended component unit of the City of Sacramento based upon the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14 – *The Financial Reporting Entity*. Other than the matter discussed above, no new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2006. We noted no transactions entered into by the City during the fiscal year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

III. Accounting Estimates

Accounting estimates are an integral part of the financial statements. Those judgments are based on 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 more significant financial statement components requiring accounting estimates are as follows:

- Accrual and disclosure of self insured claims liabilities
- Accrual and disclosure of compensated absences
- Depreciation of capital assets

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relationship to the financial statements taken as a whole.

IV. Audit Adjustments

For the purposes of this report, professional standards define an audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City's financial reporting process (that is, cause future

financial statements to be materially misstated). We did not propose any audit adjustments for the fiscal year ended June 30, 2006.

V. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter 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.

VI. Consultations with Other 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.

VII. Issues Discussed Prior to Our Retention of Independent Auditors

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.

VII. Difficulties in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This letter is intended solely for the information and use of the Honorable Mayor, City Council, management and others within the organization.

Maicon Meiri & O'Connell LLP

Certified Public Accountants

Sacramento, California
December 8, 2006