



CPAs AND ADVISORS

January 24, 2019

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pasadena, California (the City) for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 28, 2018. Professional standards also require that we communicate to you the following information related to our audit.

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 the notes to the financial statements. As described in Note 19 to the financial statements, the City changed its accounting policies related to other postemployment benefits other than pension reporting by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 75, Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions in fiscal year 2017-2018. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the government-wide statement of activities and the proprietary funds statement of revenues, expenses and changes in net position.

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 estimates of its net pension liability and net other postemployment benefits liability are based on actuarial valuation specialist assumptions. We evaluated the key factors and assumptions used to develop the net pension liability and net other postemployment benefits liability in determining that they are reasonable in relation to the financial statements taken as a whole.

Management's estimate of the fair market value of its derivative instrument is based on third party valuation. We evaluated the key factors and assumptions used to develop the fair market value of the derivative instrument in determining that it is reasonable in relation to the financial statements taken as a whole.





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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 trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, we detected misstatements as a result of audit procedures which were material, and were subsequently corrected by management. The details of these misstatements are described in a separate letter dated January 24, 2019.

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 January 24, 2019.

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.



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Other Matters

We applied certain limited procedures to management discussion and analysis, budgetary comparison schedule for the general fund and housing successor fund, the schedules of changes in the net pension liability and related ratios, the schedules plan contributions, the schedule of changes in the net OPEB liability and related ratios and the schedule of OPEB plan contributions which are required supplementary information (RSI) that 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 RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining statements and individual nonmajor fund financial statements and schedules 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. 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.

New Accounting Standards

The following new Governmental Accounting Standards Board (GASB) pronouncements were effective for fiscal year 2017-2018 audit:

GASB Statement No. 75, Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions.

GASB Statement No. 81, Irrevocable Split Interest Agreements.

GASB Statement No. 85, Omnibus 2017.

GASB Statement No. 86, Certain Debt Extinguishment Issues.

The following Governmental Accounting Standards Board (GASB) pronouncements are effective in the following fiscal year audit and should be reviewed for proper implementation by management:

Fiscal year 2018-2019

GASB Statement No. 83, Certain Assets Retirement Obligations.

GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements.



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Fiscal year 2019-2020

GASB Statement No. 84, *Fiduciary Activities*.

Fiscal year 2020-2021

GASB Statement No. 87, *Leases*.

Restriction on Use

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

Very truly yours,

Lance, Solt & Lughard, LLP

Brea, California