

# BROWN ARMSTRONG

CERTIFIED  
PUBLIC  
ACCOUNTANTS

## BROWN ARMSTRONG

*Certified Public Accountants*

To the Honorable City Council  
City of Pasadena  
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 (the "City") for the year ended June 30, 2012. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Circular A-133, 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 April 13, 2012, in our engagement letter, and on June 6, 2012, in our previous communication to the City Council. Professional standards also require that we communicate to you the following information related to our audit.

### *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 financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. As described in Notes 1 and 23 to the basic financial statements, pursuant to AB1X 26 and a subsequent court ruling, the City dissolved the Pasadena Community Development Commission during the year. Due to provisions of AB1X 26, the ruling and accounting principles generally accepted in the United States of America, an extraordinary gain was declared in the basic financial statements as well as a beginning balance restatement. 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:

- Judgment concerning which capital projects represent ordinary maintenance activities necessary to keep an asset operating for its originally intended useful life versus significant improvement, replacement, and life extending projects that should be capitalized as additions to capital assets.
- Estimates involving revenues and expenses to be accrued as of year-end.
- Estimates of liabilities for claims and judgments.

### *Difficulties Encountered in Performing the Audit*

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

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Certified Public Accountants

*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 November 29, 2012.

*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.

*Forthcoming Accounting Standard Change*

During the fiscal year ended June 30, 2014, the Pasadena Fire and Police Retirement System will be implementing the provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans—An Amendment of GASB Statement No. 25*. The City will implement GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement No. 27*, during the fiscal year ended June 30, 2015. Both standards will require the City to declare the unfunded net pension liability on its Statement of Net Position, which, as of June 30, 2012, is approximately \$40 million under current standards for fire and police, \$72 million for the City retirement program for safety officials as of June 30, 2011 (latest data), and \$153 million for other employees also as of June 30, 2011.

*Other Matters*

With respect to the supplementary information accompanying the financial statements, 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.

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

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Pasadena California  
November 29, 2012