



February 7, 2017

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 (the City) for the year ended June 30, 2016. 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 June 17, 2016. 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. Statement of Governmental Accounting Standards (GASB Statement No. 72), Fair Value Measurement and application was implemented in fiscal year 2015-2016. This implementation is noted in footnote No. 2, Cash and Investments.

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 its net pension liability is based on actuarial valuation specialist assumptions. We evaluated the key factors and assumptions used to develop the proportionate share of the net pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of its Other Post-Employment Benefit Annual Required Contribution is based on actuarial valuation specialist assumptions. We evaluated the key factors and assumptions used to develop the Other Post-Employment Benefit Annual Required Contribution in determining that it is reasonable in relation to the financial statements taken as a whole.



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

Management's estimate of the fair market value of its derivative instrument is based on a 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.

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 a misstatement as a result of audit procedures which was material, and was subsequently corrected by management. The details of this misstatement is described in a separate letter dated February 7, 2017.

#### ***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 February 7, 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 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.



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

### ***Other Matters***

We applied certain limited procedures to management discussion and analysis, budgetary comparison schedules for the General Fund and Housing Successor Fund, the schedules of changes in net pension liability and related ratios, and the schedules of 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 combining 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 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.

### ***Expanded Scope***

As discussed in the Request for Proposals and our Bid response, we agreed to perform additional testing that would result in expanding our audit scope as requested by the City. To expand our audit scope, we lowered our materiality on the major funds by 25 percent and calculated materiality on each non-major fund. By reducing our levels of materiality more financial transactions were substantively reviewed in the areas of cash receipts, cash disbursements and payroll. Samples were selected randomly from all funds using IDEA data analysis software.

### ***New Auditing Standard No. 130***

This new auditing standard is effective for financial periods ending on or after December 15, 2016; for most California municipalities it is effective for the period July 1, 2016 through June 30, 2017 and future periods thereafter. The standard allows CPA firms to issue an opinion on the financial statements conformity with generally accepted accounting principles, as well as an opinion on the operating effectiveness of internal controls over financial reporting through an integrated audit. This standard does not change the objectives of a financial statement audit, it only enhances the value and scope of a financial statement audit and increases the level of assurance provided by CPA firms on financial controls. Municipalities should look to perform an integrated audit for more assurance on the operating effectiveness of internal controls over financial reporting.

### ***New Accounting Standards***

The following new Governmental Accounting Standards Board (GASB) pronouncements were effective for fiscal year 2015-2016 audit:

GASB Statement No. 72, *Fair Value Measurement and Application*.



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

*GASB Statement No. 76, The Hierarchy of Generally accepted Accounting Principles for State and Local Governments.*

*GASB Statement No. 79, Certain External Investment Pools and Pool Participants.*

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 2016-2017

*GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statement Nos. 67 and 68.*

*GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.*

*GASB Statement No. 77, Tax Abatement Disclosures.*

*GASB Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans.*

*GASB Statement No. 80, Blending Requirements for Certain Component Units-an Amendment of GASB Statement No. 14.*

*GASB Statement No. 82, Pension Issues an Amendment of GASB Statements No. 67, No. 68, and No. 73.*

Fiscal year 2017-2018

*GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*

*GASB Statement No. 81, Irrevocable Split Interest Agreements.*

**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,

A handwritten signature in black ink that reads "Lance, Solt &amp; Lughard, LLP". The signature is written in a cursive, flowing style.

Brea, California