

November 16, 2018

To the Honorable Mayor and Members of the City Council
City of Emeryville, 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 Emeryville, 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 June 30, 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 12 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 estimate(s) affecting the City's financial statements was (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. In regards to the net OPEB liability, The actuary applied the Section 3.7.7(c)(4) of the ASOP No. 6, as revised, and determined age-adjusted rates are not necessary and therefore, the Implicit Rate Subsidy is not applicable in calculating the total projection of benefits payments.



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Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. 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. These differences are described below. In addition, none of the misstatements detected as a result of our audit procedures were material, either individually or in the aggregate, to the financial statements taken as a whole.

Unadjusted Audit Differences	Current Year Over (Under) Revenues and Expenditures/Expenses and Changes in Fund Balance/Equity
City of Emeryville pension plan net pension liability not reported in the financial statements	\$ 185,940
Cumulative effect (before effect of prior year differences)	185,940
Effect of unadjusted audit difference - prior year	-
Cumulative effect (after effect of prior year differences)	\$ 185,940

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 16, 2018.

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.



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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.

Review of City Agreements–

The City has entered into various development agreements which include elements such as loan arrangements, asset construction, and cost reimbursement. As a result of our audit procedures, we found that the City incorrectly reported the related loans receivable and capital asset transactions. Due to the complex nature of these agreements, we recommend the City implement a more formalized management review for proper financial reporting.

Management Response –

We concur with the audit recommendation. Staff has plans to review the City's loan agreements to ensure full understanding of the agreements as some agreements predate current staff. Going forward the Finance Department and the program departments will establish a more formal process for review of development agreements, and consult with the auditors as necessary.

Grant Billing–

We noted the process for certain grant reimbursement requests are not on set time schedules causing difficulties in reconciling grant-related expenditures against receivable and unavailable revenue balances. Timely grant billing is important to ensure a smooth reconciliation process and reimbursement of eligible cost. We noted the City is continuing its efforts to implement new procedures to work more closely with project managers to review and reconcile grant related accounts in a timely manner.

Management Response –

Finance staff will work with project managers to develop a more formal process for grant billing to ensure program departments prepare reimbursement requests in a timely manner.

Other Matters

We applied certain limited procedures to management's discussion and analysis, the budgetary comparison schedules for the general fund, the housing assets fund, the other grants fund and the property based improvement district fund, the schedules of proportionate share of the net pension liability, the schedule of changes in net pension liability and related ratios, the schedules of plan contributions, and the schedule of changes in the net other post-employment benefits (OPEB) liability and related ratios, 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.



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We were engaged to report on the 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 the introductory and statistical section, 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*.

Fiscal year 2019-2020

GASB Statement No. 84, *Fiduciary Activities*.

Fiscal year 2020-2021

GASB Statement No. 87, *Leases*.



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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,

Lance, Soll & Lingham, LLP

Brea, California