



CITY OF SANTA MONICA  
AUDIT SUBCOMMITTEE

January 16, 2018

6:00 PM

KEN EDWARDS CENTER  
1527 4<sup>TH</sup> STREET, ROOM 104  
SANTA MONICA, CA 90401



Sue Himmelrich, Committee Chair  
Tony Vazquez, Committee Vice-Chair  
Pam O'Connor, Committee Member  
Elizabeth Van Denburgh, Committee Member  
Greg Morena, Committee Member

**CITY OF SANTA MONICA**

**SPECIAL MEETING AGENDA OF THE  
AUDIT SUBCOMMITTEE**

**KEN EDWARDS CENTER  
1527 4<sup>TH</sup> STREET, ROOM 104  
SANTA MONICA, CA 90401**

**TUESDAY, JANUARY 16, 2018**

**6:00 PM**

NOTICE IS HEREBY GIVEN that a special meeting of the Audit Subcommittee will be held at 6:00 PM, on Tuesday, January 16, 2018, at the Ken Edwards Center, 1527 4<sup>th</sup> Street, Room 104, Santa Monica, CA 90401, for the purpose of conducting only the following business:

(Please note that Agenda Items may be reordered during the meeting at the discretion of the body.)

**1. Call to order and Roll Call**

\*Public comment is permitted only on items on the agenda. No other business will be considered at this time.

**2. Presentation of Comprehensive Annual Financial Report (CAFR) to Audit Subcommittee**

**3. Adjournment**

**STANDARDS OF BEHAVIOR THAT PROMOTE CIVILITY AT ALL PUBLIC MEETINGS:**

- Treat everyone courteously;
- Listen to others respectfully;
- Exercise self-control;
- Give open-minded consideration to all viewpoints;
- Focus on the issues and avoid personalizing debate;
- Embrace respectful disagreement and dissent as democratic rights, inherent components of an inclusive public process, and tools for forging sound decisions

This agenda is available in alternate format upon request. The Santa Monica Institute Training Room is wheelchair accessible. If you require any special disability related accommodations (i.e. sign language interpreting, access to an amplified sound system, etc.), please contact the Finance Department at (310) 458-8281 or Finance.Mailbox@smgov.net at least 2 days prior to the scheduled meeting.

This agenda is subject to change up to 24 hours prior to the special meeting. Please check the agenda prior to the meeting for changes.

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## **Santa Monica Audit Subcommittee Report**

**Audit Subcommittee of the Santa Monica City Council**

**Meeting: January 16, 2018**

**Agenda Item: 2**

To: Chairperson and Members  
From: Gigi Decavalles-Hughes, Director of Finance  
Subject: Presentation of Comprehensive Annual Financial Report (CAFR) to Audit Subcommittee

### **Recommended Action**

Staff recommends that the Audit Subcommittee receive and file the City's Comprehensive Annual Financial Report (CAFR), the independent auditors' unmodified report for the City's financial statements for the fiscal year ended June 30, 2017, and the Auditors' Letter to Council.

### **Executive Summary**

The Comprehensive Annual Financial Report (CAFR) communicates the City's financial position and activity for the fiscal year ended June 30, 2017. Overall, the City's operations show stability and steady growth, reflecting its prudent and sound management practices.

The Statement of Net Position, similar to a balance sheet, reports total assets and liabilities of the City. The total net position of the City for all activities was \$1.6 billion.

The General Fund balance decreased by \$40.8 million (to \$346.3 million) over the prior year, primarily due to an additional payment of \$35.6 million paid to CalPERS in June 2017, which represents the General Fund's portion of the \$45 million overall pay down of the City's unfunded pension liability.

The City's various pension plans are approximately 72% funded with a combined unfunded long-term actuarial liability of approximately \$461 million.

The independent auditors' unmodified report communicates that the CAFR, and audited information within, fairly present the City's financial position for the fiscal year ended June 30, 2017. This audit is performed in compliance with City Charter requirements. An attached submittal letter states that the City's independent auditors encountered no difficulties and had no disagreements with management during the audit. An additional report on the City's internal control over financial reporting and compliance notes no instances of non-compliance. The letters include corrected and uncorrected misstatements found during the audit and management has provided detailed responses.

The City of Santa Monica has received an unmodified audit report for more than three decades and has been awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers' Association of the United States and Canada (GFOA) for its CAFR for 33 consecutive years, since it began participating in the program. To make the CAFR more transparent, staff has provided an explanation for key financial performance indicators shown in the report.

Council established an Audit Subcommittee in 2015 to oversee the work of the City's auditor. The Committee has received the last two annual CAFR reports which included details of the audit process and the financial reports, a presentation by the independent external auditors, and an opportunity for Subcommittee members to ask questions of the auditors. Considering this level of review, on February 28, 2017, staff sought the Council's direction on whether the CAFR could be presented to the full Council as a consent item in the future. Council directed staff that future presentations of the CAFR should continue to receive a detailed review by the Audit Subcommittee and come to the remaining Council as a Consent Calendar item.

## **Background**

The CAFR communicates the City's financial condition and activity in a transparent and organized manner and in compliance with accounting and financial reporting standards established by the Governmental Accounting Standards Board (GASB). The report presents historical and comparative information that can be useful to City staff, elected officials, and external users such as debt rating agencies, businesses, other public agencies, and the City's residents. The most recent CFR and over 10 years of prior year reports are available at the City's libraries, the City's Finance Department, and on the City's Finance website at:

<https://finance.smgov.net/budgets-reports>.

As required by the City Charter, financial statements are prepared by the City and audited by independent auditors. The City selects its independent auditor through a competitive procurement process. The City's current independent auditor, Lance, Soll & Lunghard (LSL) CPAs, is in their second year auditing the City.

The quality of the City's financial reporting and the CAFR are measured in two ways: (1) an unmodified audit report by the independent auditors; and (2) the Certificate of Achievement for Excellence in Financial Reporting, awarded by the Government Finance Officers' Association of the United States and Canada (GFOA). The attainment of the latter is the highest form of recognition in governmental accounting and financial reporting.

Auditors follow audit industry standards established by the American Institute of Certified Public Accountants (AICPA). These standards require auditors to provide an opinion on specific areas of the City's financial statements based on observations, inquiries, testing of transactions, and analysis.

The City's CAFR includes the following major sections and information:

#### **Introductory Section**

- Letter of Transmittal – prepared by management and used to communicate information on areas that may have an impact on the City's finances now and in the future. This includes economic factors as well as budget and management factors.

#### **Financial Section (the main body of the CAFR for current year information)**

- Independent Auditors' Report – the City's report card on the content of the CAFR
- Management's Discussion and Analysis (MD&A) – provides an analytical overview of the City's financial status and results for the year
- Basic Financial Statements – reports finances at a point in time (assets - liabilities) and throughout the year (revenues - expenditures), and cash flows
  - City-Wide Statements – overview of financial information including all of the City's operations by financial activity
  - Fund Financial Statements – a detailed look at funds, reporting the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance
  - Notes to the Financial Statements (Notes) – a narrative explanation that accompanies the Basic Financial Statements

#### **Required Supplementary and Supplementary Information Sections**

- Pension Information – schedule of changes in the pension liability and related ratios; schedule of contributions by plan
- OPEB Information – schedule of Other Post-Employment Benefits funding information
- Budget to Actual Comparisons – for all governmental funds with a legally adopted budget
- A breakout of individual funds – for funds that were presented in a cumulative manner in the Financial Section

**Statistical Section (current and historical information – up to 10 years)**

- Financial Trends
- Revenue Capacity Information
- Debt Capacity Information
- Demographic and Economic Information
- Operating Information

**Discussion**

The attached CAFR for FY 2016-17 has received an unmodified opinion by LSL. An unmodified opinion communicates that the financial statements are fairly presented and that the information used in the report is reliable. In their written communications to Council, the auditors note that they encountered no significant difficulties with management in performing or completing the audit.

Statement on Auditing Standards (SAS) 114 establishes standards for the auditors' communication with those charged with governance. SAS 115 provides guidance on communicating matters related to the City's internal controls over financial reporting that have been identified in an audit of the financial statements. These statements require the auditors to consider and report on internal controls, significant audit findings, and other matters as prescribed in the standards as they relate to the audit of the financial statements. The letters that satisfy the SAS requirements are attached to this report.

The City of Santa Monica has received an unqualified/unmodified audit report and the GFOA Award for 33 years, since the City first participated in the GFOA program in FY 1983-84.

Overall, the City's CAFR shows that City finances are stable. The following is an explanation of some key indicators reported in the CAFR.

### General Fund Balance

The most notable measure of a City's financial health is the General Fund balance. As presented in the Basic Financial Statements, the City's General Fund assets exceeded liabilities by \$346.3 million as of June 30, 2017. This balance is comprised of a number of categories, as follows:

- \$22.1 million nonspendable, restricted or committed resources that are required for specific purposes according to legal/contractual agreements or by ordinance or resolution of the City Council;
- \$256.1 million assigned funds set aside for specific purposes based on budget priorities (i.e., continuing and future capital projects; project financing equity, prior year encumbrances, and expenditure control budget); and
- \$68.1 million in unassigned funds as follows:
  - \$57.0 million rainy day contingency (15% of annual operating and revenue-supported capital expenditure budget);
  - \$9.7 million economic uncertainty reserve to mitigate potential revenue losses;
  - Offset by a \$1.6 million unrealized loss;
  - \$3.0 million other unassigned fund balance.

The strong fund balance and rainy day and economic uncertainty reserves play a key role in Santa Monica's AAA general obligation bond rating. In addition to being an indicator of very strong financial health, the high bond rating allows the City to pursue lower cost financing structures.

The General Fund balance decreased by \$40.8 million over the prior year, primarily due to an additional payment of \$35.6 million paid to CalPERS in June 2017, which represents the General Fund's portion of the \$45 million overall pay down of the City's unfunded pension liability.

### Citywide Net Position

The Statement of Net Position, similar to a balance sheet, reports total assets and liabilities of the City as of June 30, 2017. The total net position of the City for all activities was \$1.6 billion. Net position is broken out into three categories: capital, restricted, and unrestricted.

*Net Capital Position (\$1,177.2 million)*

Capital assets include land, buildings, improvements, intangibles, infrastructure and utility systems, and construction in progress. Intangible assets represent rights of use for items such as software and payments for Santa Monica's cost of improvements to the City of Los Angeles sewage treatment system. Some notable capital projects that were underway as of June 30, 2017 are:

- City Services Building
- Fire Station 1
- Fire Station 3
- Fire Apparatus Replacement
- Enterprise Resource Planning System
- City Yards Modernization
- Pier Bridge Electrical Upgrades

*Restricted Net Position (\$217.6 million)*

These assets are subject to agreements with creditors, developers, grantors, or laws or regulations of other governments. Approximately 63% of this amount is restricted for affordable housing and committed to various projects, 18% is restricted per federal, state and other grant regulations, and the remaining amount is restricted for the Cemetery's trust fund, debt service reserve, development agreement terms, and other grant and legislative constraints.

*Unrestricted Net Position (\$172.5 million)*

This represents the balance of net position that is neither part of capital assets nor restricted. Healthy capital and operating reserves in the business-type activities support rate stabilization and recovery strategies for the City's many activities.

Long Term Debt

The primary source of long term debt is in the form of bonds issued by the City. At the end of the current fiscal year, the City's total long-term debt outstanding (excluding issuance premiums) was \$77.4 million. The primary source of long term debt is in the form of bonds issued by the City. Principal payments of \$6.2 million were made on one general obligation bond for the Main Library construction, five General Fund revenue bonds for various parking structures and the Public Safety Facility, and one revenue bond to fund a proportionate share of capital improvements of the City of Los Angeles Hyperion wastewater treatment facility. On July

1, 2016, final payment was made on the Parking Authority Refunding 2002 Lease Revenue bonds. *More information on long term debt can be found in Note 9, page 57 of the CAFR.*

### Pension Liability

GASB 68, implemented in FY 2014-15, was a pronouncement intended to provide greater transparency for pension accounting by requiring entities to report unfunded liability in the financial statements rather than in the footnotes. These GASB pronouncements do not affect either the amount of contributions a government makes to pension plans or the total net pension liability, which is still actuarially determined. Total net pension liability, or unfunded liability, is based on projected future benefit payments attributed to the current and past employees' service, less the assets accumulated to pay those liabilities. As shown on the Statement of Net Position, page 1 of the CAFR, the City has a net unfunded actuarial liability of approximately \$461 million: the difference between a total pension liability of approximately \$1.62 billion and plan assets of approximately \$1.16 billion, making the City's various pension plans approximately 72% funded. The unfunded liability amount increased from \$387 million as shown in the prior year's CAFR, to \$461 million, primarily due to the actual returns on the investment portfolio being less than CalPERS' projected returns. Since plan assets are based on market value, changes in investment values can have a drastic impact on the overall funding ratio of the plans, positively or negatively. The City's annual payments include a portion to fund current benefits as well as an amount to pay down the unfunded liability. Annual actuarial valuations provide the City with the amount of the contribution that must be paid annually into the plan to ensure that the current unfunded liability is paid off over the following 30 years. In FY 2016-17, the portion of the actuarially determined employer contribution (ADEC) dedicated to paying down the unfunded liability was \$26.7 million, or 53% of the total \$50.2 million ADEC. *A detailed explanation of the Employee Benefits Programs including detailed pension information by plan is included in Note 16 (pages 76 through 87) and the Required Supplementary Information (pages 99 through 104).*

State-mandated pension reform and Council-approved cost saving measures mitigate pension cost increases. Over the past three years, Police and Fire sworn employees have increased their contributions towards pensions to reach over 28% of the total pension cost, while Miscellaneous employees are contributing over 25% of the pension cost. The passage of the Public Employee Pension Reform Act, or PEPRA, in September 2012 is working to further control cost increases in the future, as new employees entering PERS after January 1, 2013 are

receiving reduced retirement benefits and cities are encouraged to further increase employees' share of contribution costs. To date, approximately 32% of the City's permanent workforce is receiving reduced pension benefits. The City will continue its Council-adopted policy to pay down at least an additional \$1 million of the unfunded liability every year.

At the December 21, 2016 meeting, the CalPERS Board of Administration approved lowering the CalPERS discount rate assumptions, the long term rate of return from 7.5% to 7.0%. Due to timing, it did not affect the liability reported in this year's CAFR, but will likely increase the liability in the CAFR beginning next year.

In June 2017, responding to the prospect of additional significant pension contribution rate increases beginning in FY 2018-19, Council approved a \$45 million pay down of the City's pension unfunded liability. Due to the requirements of GASB 68 reporting, the impact of this payment will not be reflected in the net pension liability until the FY 2017-18 CAFR. Based on updated estimate from CalPERS that take all these factors into consideration, the combination of the additional pay down and a better than anticipated experience level resulting from City employees retiring later is contributing to a 1/3 decrease in the projected growth of pension costs over the next 5 years that will help minimize the impact of the discount rate change.

#### Cash and Investments

The CAFR also includes detailed information on the City's cash and investments. As of June 30, 2017, the City had \$764 million in total cash and investments, all of which are in the form of investments authorized by the California Government Code and the City's investment policy or in compliance with bond indenture agreements. *More information on cash and investments is found in Note 5, page 37 of the CAFR.*

**Prepared By:** Stephanie Manglaras, Accounting Manager

#### **Attachments:**

- A. [Comprehensive Annual Financial Report \(CAFR\)](#) (Weblink)
- B. Independent Auditors' Unmodified Report for the City's Financial Statements for the Fiscal Year Ended June 30, 2017
- C. Auditors' Letter to Council



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and Members of the City Council  
City of Santa Monica, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Santa Monica, California, (the City) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 18, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies to be material weaknesses:

**2017 – 1: Deposits Payable**

We noted the City's deposits payable detailed schedule for the Resource, Recovery & Recycling Fund did not agree to the deposits payable recorded in the general ledger, with a variance of \$687,124. The deposits payable recorded in the general ledger are less than the identified deposits payable outstanding in the subsidiary ledger, presenting the risk that certain deposits have been recorded as refunded in the general ledger, although the nature of such deposits are unidentified. We recommend the City perform a thorough review of all deposits payable to ensure that the items recorded in the GL are valid deposits, and update the information annually to avoid any errors or missed payments.



To the Honorable Mayor and Members of the City Council  
City of Santa Monica, California

**Management Response:** Management agrees with the noted deficiency. In March 2017, management engaged Moss Adams to conduct an internal audit of the Resource, Recovery & Recycling Fund deposit payables process, and Moss Adams will issue their report in January 2018. The audit should establish an improved process with an emphasis on how to reconcile the subsidiary payables ledger with the general ledger deposit account to ensure deposits are accurately tracked and recorded going forward.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies to be significant deficiencies:

### **2017 – 2: Cash & Accrued Liabilities Misstatement**

We noted that the City's cash and accrued liabilities were understated by \$412,931 due to a 6/24/17 payroll entry that left balances in the payroll clearing fund that should have zeroed out at yearend.

**Management Response:** Management agrees that an error was made in clearing out the payroll clearing fund due to the timing of a payroll payment, and will confirm that the payroll clearing fund account is zero at yearend prior to providing the trial balance to the auditors.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **City's Response to Findings**

The City's response to the findings identified in our audit was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Brea, California  
December 18, 2017



December 18, 2017

To the Honorable Mayor and Members of the City Council  
City of Santa Monica, 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 Santa Monica, California (the City) for the year ended June 30, 2017. 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 May 24, 2017. 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 18 to the basic financial statements, certain events occurred during the fiscal year 2016-17 which resulted in the reporting of special items. These special items are categorized as such because of their infrequent and unusual nature, but unlike extraordinary items, the effect of special items is within the control of City management. The City's General Fund forgave a note to the Airport Fund. The effect of the forgiveness of this note resulted in the City's General Fund reporting a loss of \$1,103,146, with the Airport Fund reporting a gain of \$1,103,146. The respective gain and loss related to the note forgiveness was reported as such in both the fund level statements and the governmental and business-type activities in the government-wide statements. The City also made a \$45,000,000 payment to CalPERS to pay down the unfunded pension liability. Of this payment \$36,317,543 is the share of governmental funds and is reported as an expenditure in the fund level statements. The payment is reported as a deferred outflow in the governmental and business-type activities in the government-wide statements.

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. Material estimates affecting the City's financial statements were:

Management's estimate of the net pension liability and the net other post-employment benefits (OPEB) obligation is based on actuarial standards utilized in the relating actuarial reports. We evaluated the key factors and assumptions used to develop the net pension liability and net OPEB obligation 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 Santa Monica, California

The disclosure of Pollution Remediation in Note 4 to the basic financial statements discusses the City's obligation for pollution remediation costs. Multiple methods for estimating the value of the obligation are available under GASB Statement No. 49 – Accounting and Financial Reporting for Pollution Remediation Obligations, including measuring the obligation at current value, expected total outlays, or expected future cash flow. The City has elected to measure the liability using the expected cash flow method, and includes an additional 10% contingency for unforeseen costs. As of June 30, 2017, the City has estimated that its total obligation for pollution remediation is \$111,381,464, with \$3,233,674 of that amount expected to be paid out during fiscal year 2017-18.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements was (were):

As described in Note 16 to the basic financial statements, the city has a defined benefit pension plan which is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple employer plan administered by CalPERS. The City reported a net pension liability of \$460,663,362 as compared to \$386,760,127 in the prior year. This liability represents the net difference between the pension plan assets and the total pension liability.

Additionally, the City provides other post-employment benefits (OPEB) based on agreements with various bargaining units. The City reported \$10,540,517 in net OPEB obligation as compared to \$10,431,582 in the prior year. This represents the balance of the unfunded annual required contributions. Beginning in fiscal year 2017-18, the City will be required to report the unfunded actuarial accrued liability on the face of the financial statements which as of July 1, 2015, the latest valuation date, was \$27,848,131.

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, 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 the report on internal controls dated December 18, 2017.

The following is an adjustment that is immaterial in nature that the City elected not to record. The entry is a "mark to market" entry for a fiscal agent investment account that reverses each year on July 1.



To the Honorable Mayor and Members of the City Council  
 City of Santa Monica, California

Unadjusted Audit Differences	Current Year Over (Under) Revenues and Expenditures/Expenses and Changes in Fund Balance/Equity
Omission to record fair market value adjustment on investment	\$ (20,600)
Cumulative effect (before effect of prior year differences)	(20,600)
Effect of unadjusted audit difference - prior year	-
Cumulative effect (after effect of prior year differences)	\$ (20,600)

***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 December 18, 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.

**Other Matters**

We applied certain limited procedures to the management’s discussion and analysis, the schedules of revenues, expenditures, and changes in fund balance – budget and actual for the general fund, special revenue source fund, and the low and moderate income housing assets fund, the schedule of changes in the net pension liability and related ratios, the schedule of contributions – pension plans, and the OPEB funding information, 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.



To the Honorable Mayor and Members of the City Council  
City of Santa Monica, California

We were engaged to report on combining and individual fund 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 or 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 Auditing Standard No. 130

This new auditing standard is effective for financial periods ending on or after December 15, 2017; 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 2016-2017 audit:

*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 Post-Employment 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.*



To the Honorable Mayor and Members of the City Council  
City of Santa Monica, California

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 2017-2018

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*.

Fiscal year 2018-2019

GASB Statement No. 83, *Certain Assets Retirement Obligations*.

Fiscal year 2019-2020

GASB Statement No. 84, *Fiduciary Activities*.

**Restriction on Use**

This information is intended solely for the use of the City Council and management of the City of Santa Monica, California, 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