LSL
CERTIFIED PUBLIC ACCOUNTANTS

• David E. Hale, CPA, CFP
• Donald G. Slater, CPA
• Richard K. Kikuchi, CPA
• Susan F. Matz, CPA
• Bryan S. Gruber, CPA
• Deborah A. Harper, CPA
• Gary A. Cates, CPA
• Michael D. Mangold, CPA
• David S. Myers, CPA

December 30, 2015

To the Honorable Mayor and Members of the City Council
City of Palm Springs, 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 Palm Springs (City) for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *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 June 30, 2015. 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 1, the City changed accounting policies related to pensions reporting by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* in fiscal year 2014-2015. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the government-wide statement of activities; 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.

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):

> The disclosure of Restatements in Note 12 to the financial statements for governmental activities, business-type activities, and proprietary funds statements, identifies the effect of the accounting change as of the beginning of the year resulting from the City's implementation of GASB Statement No. 68. Restatement amounts are detailed to indicate the portion of the restatement that was affected by the implementation of GASB Statement No. 68. Additionally, the disclosure of the Pension Plan in Note 7 to the financial statements details the outstanding balance of the City's net pension liability for each plan covered by the City.

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, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the 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 December 30, 2015.

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

Required Supplementary Information

We applied certain limited procedures to management discussion and analysis, and budgetary comparison information for the General and Housing funds, 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 Palm Springs, 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.

Accounting Updates

The following new Governmental Accounting Standards Board (GASB) pronouncements were effective for fiscal year 2014-2015 audit:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27.*

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations.*

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to Measurement Date – an Amendment of GASB Statement No. 68.*

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 2015-2016

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

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

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

Fiscal year 2016-2017

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

Fiscal year 2017-2018

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

Other Comments

On September 1, 2015, Federal and State investigators seized certain financial records of the City of Palm Springs. As of December 30, 2015, the date of our auditors report, it is unknown as too why the records were seized and no outcome of any investigation has been made available to us or to the City of Palm Springs.

To the Honorable Mayor and Members of the City Council
City of Palm Springs, California

Restriction on Use

This information is intended solely for the use of City Council or individual(s) charged with governance 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 & Lunghard, LLP

Brea, California