LSL
CERTIFIED PUBLIC ACCOUNTANTS

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November 12, 2010

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 (the City) for the year ended June 30, 2010, and have issued our report thereon dated November 12, 2010. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

Our responsibility, as described by professional standards, is to express opinions about whether the financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Significant deficiencies in such controls, if any, have been communicated to you by a separate letter.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements. Again, instances of non-compliance with provisions of laws, regulations, contracts and grants noted by us, if any, have been communicated to you by a separate letter.

Planned Scope and Timing of the Audit

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Accordingly, a material misstatement may remain undetected. Also, an audit is not designed to detect error or fraud that is immaterial to the financial statements.

During the audit, we obtained an understanding of the entity and its environment, including its internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identify significant deficiencies. Significant deficiencies in such controls, if any, have been communicated to you by a separate letter.

Our audit has been performed in phases which consisted of interim contact(s) during the fiscal year and a year-end contact which occurred after the fiscal year-end.

Had we noted any significant matters related to the financial statement audit that were, in our professional judgment, relevant to the responsibilities of those charged with governance in overseeing the financial reporting process, we would have communicated those in a separate letter. We did not note any such matters. Generally accepted auditing standards do not require us to design procedures for the purpose of identifying other matters to communicate with those charged with governance.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2010. 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

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. Where applicable, the City utilized accounting estimates for depreciation on City assets, amortization of bond related issuance costs, premiums/discounts and gains/losses on bond defeasance and for reporting incurred but not reported amounts relating to the liability for claims and judgments. The methodology used during this audit is consistent with that of prior years. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Financial Statements Disclosure

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The disclosures in the financial statements 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 the audit difference evaluation form. 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, professional standards define a disagreement with management as 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 12, 2010.

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 governmental unit'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 governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

City of Emeryville

We noted the following deficiencies in the City's internal control which we consider to be material weaknesses:

Federal Grant Reporting

During our federal grants test work, we identified numerous grants that were not included on the Schedule of Expenditures of Federal Awards (SEFA). The City has a decentralized grants management system and the award of grants and the amount spent each year is not being communicated to finance department, resulting in the finance department not having the ability to prepare a complete and accurate SEFA. It is management's responsibility to complete the SEFA with accurate information. We recommend that the City establish procedures throughout the City

so that the communication between the Finance department and other departments improves and all federal grants are properly identified and reported on the SEFA.

Response: Staff will develop administrative guidelines and procedures to ensure the Finance division is able to properly identify all Federal grants on a timely basis.

Timeliness of Grant Reporting

During our federal grants test work, we noted grant expenditures from fiscal year 2008-2009 which had not been submitted for reimbursement as of June 30, 2010. The City has had considerable turnover in the department responsible for submitting reimbursement requests to the granting agency. The City should be submitting reimbursement requests in a timely fashion to prevent cash shortfalls and to ensure that the City receives the money its owed. We recommend that the City establish procedures to ensure grant funds are requested in a timely fashion.

Response: Staff will incorporate reimbursement guidelines into the grant administrative instructions discussed above in order to ensure timely reporting and reimbursements of grant expenditures.

Emeryville General Child Development Program Findings

We noted instances within the General Child Development Program where they were not in compliance with certain laws, regulations, and contracts and grant agreements as follows.

Finding #1

We found that, during October 2009, six subsidized and two full-cost students were assessed and/or billed for the incorrect amount. This resulted in an under-collection of parent fees for the six subsidized students and two full-cost students of $470 and $111, respectively, totaling $581. This was caused by using the incorrect column of the State's fee schedule and calculated monthly fees with the incorrect number of days of operations. To correct this, the Program should implement internal control procedures to ensure that the proper rates are being assessed for both subsidized and full-cost students.

Response:
Administrative personnel are now using the most recent matrix of parent fees from the California Department of Education for subsidized students. These fees have been incorporated into the computerized registration system for each subsidized student. The system will generate an invoice each month notifying parents of subsidized students of the monthly amount due. Staff will monitor the account for each student on a monthly basis to make sure that the correct fees have been assessed and collected.

For the current fiscal year (10-11) administrative staff updated the accounts for each market rate student to ensure the proper monthly assessment is applied to each student. Staff will monitor the account for each student on a monthly basis to ensure correct fees are assessed and collected.

Finding #2

We found that one full-cost student was not charged for services provided for the month of October 2009. This resulted in under-collection of parent fees totaling $57 and was caused by Program staff neglecting to invoice the student's family. The Program should implement internal

control procedures to ensure that the proper rates are being assessed for both subsidized and full-cost students.

Response:
For the current fiscal year (10-11) administrative staff updated the accounts for each market rate student to ensure the proper monthly assessment is applied to each student. Staff will monitor the account for each student on a monthly basis to ensure correct fees are assessed and collected.

Finding #3

Program personel were unable to locate one student's personnel file that was selected for testing. We recommend that the Program implement procedures to ensure that all files are maintained. We also recommend that the Program perform an inventory of all student files to ensure that all files have been accounted for.

Response
An inventory of all current files will be conducted on a monthly basis beginning with November 2010.

Finding #4

We found that one student had twelve vacation/unexcused absences, which is above the limit of ten days. This was caused because Program personnel only marks absences on monthly sheets, and does not periodically total year-to-date vacation/unexcused absences. To correct this, we recommend that the Program enforce the absence policy more strictly to ensure the limit is not exceeded as well as keep an annual summary of vacation/unexcused absences to ensure that the limit is not exceeded.

Response:
Parents of subsidized students will be reminded of the limit of 10 vacation days per fiscal year. Anyone exceeding that amount will have those days marked as unexcused on the monthly sign in sheets and attendance summary reports.

An additional column will be added to the monthly summary attendance reports which will add and carry forward the number of vacation days taken for each child.

Finding #5

While testing the income reported on form AUD 8501, we identified donations which were not reported on quarterly forms filed with the State. This was an oversight on the part of Program personnel and the omission of these revenues did not cause any over or under reimbursements to be received by the City. We recommend that the Program include all revenue sources pertaining to the Program on the quarterly forms and ensure that the amounts are consistent with the amounts recorded on the general ledger.

Response:
We will include all revenue sources pertaining to the Program on the quarterly forms and ensure amounts agree to the general ledger.

Finding #6

No physical inventory was performed on equipments purchased with state funding. This was caused by the previous Program Director retiring at the beginning of the fiscal year, and the

interim director not being aware of this requirement. The Program should perform a physical count at least once each fiscal year.

Response:
The inventory that was completed in October 2010 will be saved and updated prior to the end of each fiscal year.

Emeryville Redevelopment Agency

The results of our tests of compliance relating to the compliance audit required by the Health and Safety Code disclosed no instances of noncompliance. Additionally, we noted no instances of other matters that are required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States.

Other Communications

The City implemented, when applicable, the following new Governmental Accounting Standards Board (GASB) pronouncements, which were effective for fiscal year 2009-2010 audits:

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*

GASB Statement No. 57*, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*

GASB Statement No. 58*, Accounting and Financial Reporting for Chapter 9 Bankruptcies*

The City will be required to implement GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* during fiscal year 2010-2011. As a result of this implementation, the classification of some of the City's funds will need to be reevaluated and may need to be reclassified to comply with the new rules. This has been discussed with management and they are aware of the potential changes to the financial statement presentation.

This information is intended solely for the use of the members of the 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

Audit Difference Evaluation Form

Name of Governmental Unit: City of Emeryville

Date of Combined Balance Sheet: June 30, 2010

Opinion Unit, Fund Type or Fund: All Funds

Instructions

This form should be used to accumulate known audit differences by opinion unit, fund type or fund detected by non-sampling substantive tests (including differences in accounting estimates) and projected audit differences from substantive tests that used sampling. The current year effect of prior year uncorrected audit differences should also be summarized at the bottom of the form. This form should not include normal closing entries. At the end of the audit, the auditor should evaluate all uncorrected audit differences individually and in the aggregate, in the context of individual opinion and conclude whether they materially misstate the financial statement of an opinion unit. Thus, a separate Audit Difference Evaluation Form should be maintained for each opinion unit, fund type or fund.

Description (Nature) of Audit Difference	Cause	Workpaper Ref.	Amount
GASB 31 adjustment	Difference in fair market value calculation	D.2	$ (27,565)
Total			(27,565)
Less Audit Adjustments Subsequently Booked			-
Net Unadjusted Audit Differences - this year			(27,565)
Effect of Net Unadjusted Audit Difference - prior year			-
Net Audit Differences			$ (27,565)