

CITY OF ORANGE, CALIFORNIA
AIR POLLUTION REDUCTION FUND
AUDIT REPORT
JUNE 30, 2015

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CITY OF ORANGE
 AIR POLLUTION REDUCTION FUND
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INDEPENDENT AUDITORS' REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the Air Pollution Reduction Fund of the City of Orange, California (the City), as of and for the year ended June 30, 2015, and the notes to the financial statements, which collectively comprise the Air Pollution Reduction Fund of the City's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Air Pollution Reduction Fund of the City of Orange, California, at June 30, 2015, and the results of its operations and budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America.



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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

As discussed in Note 1, the financial statements present only the Air Pollution Reduction Fund and are not intended to present fairly the financial position and results of operations of the City in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 9, 2015, on our consideration of the Air Pollution Reduction Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Brea, California
December 9, 2015

CITY OF ORANGE
 AIR POLLUTION REDUCTION FUND

STATEMENT OF NET POSITION
 JUNE 30, 2015

	Governmental Activities
Assets	
Cash and investments	\$ 75,092
Receivables:	
Accounts	45,344
Accrued interest	132
Total Assets	120,568
Deferred Outflows of Resources	
Deferred pension related items	9,598
Total Deferred Outflows of Resources	9,598
Liabilities	
Accounts payable	333
Noncurrent liabilities:	
Net pension liability	122,934
Total Liabilities	123,267
Deferred Inflows of Resources	
Deferred pension related items	26,925
Total Deferred Inflows of Resources	26,925
Net Position	
Unrestricted	(20,026)
Total Net Position	\$ (20,026)

CITY OF ORANGE
AIR POLLUTION REDUCTION FUND

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	
Governmental Activities:					
General government	\$ 140,697	\$ -	\$ -	\$ -	\$ (140,697)
Public safety	6,360	-	172,806	-	166,446
Public works	15,084	-	-	-	(15,084)
Total Governmental Activities	\$ 162,141	\$ -	\$ 172,806	\$ -	10,665
General Revenues					
					482
					482
					11,147
					109,514
					(140,687)
					(31,173)
					\$ (20,026)

CITY OF ORANGE
AIR POLLUTION REDUCTION FUND

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

Assets

Cash and investments	\$	75,092
Receivables:		
Accounts		45,344
Interest		132
		<hr/>
Total Assets	\$	120,568

Liabilities and Fund Balance

Liabilities

Accounts payable	\$	333
		<hr/>
Total Liabilities		333

Fund Balance

Restricted for special revenue projects		120,235
		<hr/>
Total Fund Balance		120,235
		<hr/>
Total Liabilities and Fund Balance	\$	120,568

**CITY OF ORANGE
AIR POLLUTION REDUCTION FUND**

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2015**

Fund balances of governmental funds	\$ 120,235
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Items related to net pension liability:	
Governmental funds report all pension contributions as expenditures. However, the pension contributions subsequent to the measurement date are reclassified as deferred pension contributions.	9,598
Governmental funds report all pension contributions as expenditures, however, in the Statement of Net Position, the excess of the plan proportionate share of the total pension liability over the proportionate share of the plan fiduciary net position is reported as a net pension liability.	(122,934)
The difference between the proportionate share of the projected and actual earnings on the pension plan investments is reported as deferred inflows of resources and amortized over the remaining service life.	<u>(26,925)</u>
Net position of governmental activities	<u><u>\$ (20,026)</u></u>

CITY OF ORANGE
AIR POLLUTION REDUCTION FUND

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

Revenues

Intergovernmental	\$ 172,806
Interest income	482
Total Revenues	<u>173,288</u>

Expenditures

General government	141,123
Public safety	6,360
Capital outlay	15,084
Total Expenditures	<u>162,567</u>

Excess (Deficiency) Revenue Over (Under) Expenditures	10,721
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Fund Balance, Beginning of Year	<u>109,514</u>
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Fund Balance, End of Year	<u><u>\$ 120,235</u></u>
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**CITY OF ORANGE
AIR POLLUTION REDUCTION FUND**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015**

Net change in fund balances - total governmental funds \$ 10,721

Amounts reported for governmental activities in the statement of activities are different because:

Pension obligation expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 426

Change in net position of governmental activities \$ 11,147

**CITY OF ORANGE
AIR POLLUTION REDUCTION FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 1: General

Assembly Bill 2766 authorizes the South Coast Air Quality Management District (SCAQMD) to impose an annual vehicle registration fee and to distribute a portion of the collected revenues to all local jurisdictions within the South Coast Air Basin. These revenues are to be used solely to reduce air pollution from motor vehicles by implementing new programs and studies necessary for the implementation of the California Clean Air Act.

Note 2: Summary of Significant Accounting Policies

a. Financial Reporting Entity

The accounts of the City of Orange, California (the City), are organized on the basis of funds, each of which is considered a separate accounting entity with a self-balancing set of accounts. Monies received under Assembly Bill 2766 (AB2766) are recorded in a Special Revenue Fund, the Air Pollution Reduction Fund, which is used to account for the proceeds of revenue to be used for the purpose of implementing the Clean Air Act.

b. Basis of Presentation

The Air Pollution Reduction Fund's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the fund.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

While separate government-wide and fund financial statements are presented, they are interrelated.

c. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon

**CITY OF ORANGE
AIR POLLUTION REDUCTION FUND**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

Note 2: Summary of Significant Accounting Policies (Continued)

enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues relating to grants to be available if they are collected within 120 days of the end of the current fiscal period, and within 60 days for all other revenues. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Air Pollution Reduction Fund.

The accompanying financial statements are intended to reflect the financial position and results of operations for the Air Pollution Reduction Fund (AB 2766) only.

d. Cash and Investments

The Air Pollution Reduction Fund's cash and investment balance was pooled with various other City funds for deposit and investment purposes. The net change in fair value and interest earnings were apportioned to the participating funds based on the relationship of their average daily balances to the total of the pooled cash and investments.

e. Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Air Pollution Reduction Fund has only one type of item in this category. Deferred outflows from changes in the net pension liability is reported only in the Statement of Net Position, arising under the full accrual basis of accounting.

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Air Pollution Reduction Fund has only one type of item in this category. Deferred inflows from changes in the net pension liability is reported only in the Statement of Net Position, arising only under the full accrual basis of accounting.

CITY OF ORANGE
AIR POLLUTION REDUCTION FUND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

Note 2: Summary of Significant Accounting Policies (Continued)

f. Net Position Flow Assumption

Sometimes the Air Pollution Reduction Fund will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

g. Fund Balance Flow Assumptions

Sometimes the Air Pollution Reduction Fund will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

h. Fund Equity

In the fund financial statements, government funds report the following fund balance classification:

Nonspendable include amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The Air Pollution Reduction Fund did not have any nonspendable fund balance as of June 30, 2015.

Restricted include amounts that are constrained on the use of resources by either (a) external creditors, grantors, contributors, or laws of regulations of other governments or (b) by law through constitutional provisions or enabling legislation.

Committed include amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest authority, the City Council. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution. The Air Pollution Reduction Fund did not have any committed fund balance as of June 30, 2015.

Assigned include amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Air Pollution Reduction Fund did not have any assigned fund balance as of June 30, 2015.

Unassigned include the residual amounts that have not been restricted, committed, or assigned to specific purposes. The Air Pollution Reduction Fund did not have any unassigned fund balance as of June 30, 2015.

**CITY OF ORANGE
AIR POLLUTION REDUCTION FUND**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

Note 2: Summary of Significant Accounting Policies (Continued)

An individual governmental fund could include nonspendable resources and amounts that are restricted or unrestricted (committed, assigned, or unassigned) or any combination of those classifications. Restricted amounts are to be considered spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available and committed, assigned, then unassigned amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

i. Pensions

The accompanying financial statements reflect the implementation of GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27*, accounting for pensions by state and local government employers. The intent of the statement is to enhance accountability by requiring recognition of the entire net pension liability and provide a more comprehensive measure of pension expense.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following times frames are used.

Valuation Date (VD)	June 30, 2013
Measurement Date (MD)	June 30, 2014
Measurement Period (MP)	July 1, 2013 to June 30, 2014

j. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**CITY OF ORANGE
AIR POLLUTION REDUCTION FUND**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

Note 3: Cash and Investments

The City Treasurer maintains a cash and investment pool used by all funds of the City, including the Air Pollution Reduction Fund. The Air Pollution Reduction Fund does not own specifically identifiable securities of the City's pool. The Air Pollution Reduction Fund's portion of this pool is reported in the accompanying balance sheet as "cash and investments." Investment policies and associated risk factors applicable to the Air Pollution Reduction Fund are those of the City and are disclosed in the City's comprehensive annual financial report.

Cash and investments held by the Air Pollution Reduction Fund at June 30, 2015, consisted of the following:

Equity in the City of Orange's investment portfolio	<u>\$ 75,092</u>
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Note 4: Retirement Plan

a. Plan Description, Benefits Provided and Employees Covered

The City contributes to the California Public Employees' Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan (the Plan). CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and their beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provision and all other requirements are established by state statute and memoranda of understanding with employee bargaining units. A full description of the pension plan regarding number of employees covered, benefit provisions, assumptions (for funding, but no accounting purposes), and membership information are listed in the CalPERS June 30, 2013 Annual Actuarial Valuation Report. Details on the benefits provided can be obtained in Appendix B of the actuarial valuation report. This report and CalPERS' audited financial statements are publicly available reports that can be obtained at CalPERS' website under Employers.

The plan provides benefits for two membership classifications, Miscellaneous and Safety, and those benefits are tiered based upon date of CalPERS membership. Safety membership is extended to those in active law enforcement and fire suppression, while all others are classified as Miscellaneous members. Assembly Bill (AB) 340, also known as the Public Employees' Pension Reform Act (PEPRA), created new benefit formulas and a final compensation period as well as new contributions requirements for new employees. For the purpose of PEPRA, "new employees" are those hired on or after January 1, 2013, and had never been a member of CalPERS previously. CalPERS refers to members prior to January 1, 2013, as Classic members.

Employees of the Air Pollution Reduction Fund are covered under the City's Miscellaneous Plan. As such, relating pension balances and activities have been allocated proportionately to the Air Pollution Reduction Fund. Further details of the City's retirement plans can be found in the City's Comprehensive Annual Financial Report for the Year Ended June 30, 2015.

**CITY OF ORANGE
AIR POLLUTION REDUCTION FUND**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

Note 5: Restatements

The accompanying government-wide financial statements reflect adjustments that resulted in a restatement of beginning net position. A restatement adjusts the financial position of the relating fund or activity by matching prior years' revenues and expenditures. The following schedule summarizes the effects of the restatements to the beginning net position as of July 1, 2014:

	Governmental Activities
Net Position, Beginning of Year, as Previously Reported	\$ 109,514
Restatement	<u>(140,687)</u>
Net Position, Beginning of Year, as Restated	<u>\$ (31,173)</u>

The above restatement in the government-wide financial statements are the result of implementation of GASB Statement No. 68, which requires the recording of the Air Pollutions Reduction Fund's proportionate share of the City's net pension liability in the government-wide financial statements.

Note 6: Availability of Other Information

Copies of separate progress reports filed with the SCAQMD Board, which detail the accomplishments during the fiscal year ended June 30, 2015, are available at Orange City Hall.

CITY OF ORANGE
AIR POLLUTION REDUCTION FUND

BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2015

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows)				
Intergovernmental	\$ 198,800	\$ 198,800	\$ 172,806	\$ (25,994)
Investment income	281	281	482	201
Amounts Available for Appropriations	199,081	199,081	173,288	(25,793)
Charges to Appropriations (Outflow)				
Salaries and benefits	67,350	67,350	69,518	(2,168)
Capital projects	56,000	66,000	15,084	50,916
Trip reduction program	59,335	59,335	54,417	4,918
Professional costs	7,600	7,600	7,408	192
Printing costs	2,700	2,700	-	2,700
Bike team usage	6,500	6,500	6,360	140
Association dues	700	700	1,140	(440)
Training costs	900	900	-	900
Administrative and general overhead	10,683	10,683	8,640	2,043
Total Charges to Appropriations	211,768	221,768	162,567	59,201
Net Change in Fund Balances	(12,687)	(22,687)	10,721	33,408
Fund Balances, Beginning of Year	109,514	109,514	109,514	-
Fund Balances, End of Year	\$ 96,827	\$ 86,827	\$ 120,235	\$ 33,408

**CITY OF ORANGE
AIR POLLUTION REDUCTION FUND**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2015**

Budgetary Accounting

The budget for the Air Pollution Reduction Special Revenue Fund is formally adopted annually and is prepared in conformity with accounting principles generally accepted in the United States of America. The budget is monitored to ensure compliance with legal provisions embodied in the appropriated budget as approved or amended by the City Council throughout the year. Department heads are responsible for monitoring their department's appropriated budget. The legal level of budgetary control is at the department and fund level. The City's management may transfer resources between operating line items within a department in the same fund as they see appropriate. Encumbrances (e.g. purchase orders, contracts) outstanding at year-end are reported as restriction of fund balance since they do not constitute expenditures or liabilities.

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 Orange, 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 Air Pollution Reduction Fund financial statements of the City of Orange, California, (the City) as of and for the year ended June 30, 2015, and the related notes to the financial statements and have issued our report thereon dated December 9, 2015.

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.

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. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.



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

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.

Lance, Soll & Lughard, LLP

Brea California
December 9, 2015

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH APPLICABLE
REQUIREMENTS AND ON INTERNAL CONTROL OVER COMPLIANCE

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

Report on Compliance of the Air Pollution Reduction Fund

We have audited the compliance of the Air Pollution Reduction Fund of the City of Orange, California (the City), with the types of compliance requirements described in Assembly Bill 2766, Chapter 1705 (44220 through 44247) for the year ended June 30, 2015.

Management's Responsibility for the Financial Statements

Management is responsible for compliance with the requirements of Assembly Bill 2766, Chapter 1705 (44220 through 44247).

Auditor's Responsibility

Our responsibility is to express opinions on compliance with the requirements of Assembly Bill 2766, Chapter 1705 (44220 through 44247). We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States, and Assembly Bill 2766, Chapter 1705 (44220 through 44247). Those standards and Assembly Bill 2766, Chapter 1705 (44220 through 44247) require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a material effect on the Air Pollution Reduction Fund occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance. However, our audit does not provide a legal determination of the City's compliance.

Opinion on the Air Pollution Reduction Fund

In our opinion, the City complied, in all material respects, with the types of compliance that could have a direct and material effect on requirements referred to above applicable to the Air Pollution Reduction Fund for the year ended June 30, 2015.



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

**Report on Internal Control Over Compliance of the
Air Pollution Reduction Fund**

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the type of compliance requirements referred to above. In planning and performing our audit, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the Air Pollution Reduction Fund to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or, significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Assembly Bill 2766, Chapter 1705 (44220 through 44247). Accordingly, this communication is not suitable for any other purpose.

Lance, Soll & Lughard, LLP

December 9, 2015