

To the Honorable City Council
of the City of Orange
Orange, California

We have audited the financial statements of the governmental activities, business-type activities, each major fund and aggregate remaining fund information of the City of Orange, California (the City), for the year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated April 24, 2019 and our letter on planning matters dated May 17, 2019. 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 Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year ended 2019. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the City's financial statements were as follows:

- a. Management's estimate of the fair value of investments is based on quoted prices in an active market. When quoted prices in active markets are not available, fair values are based on evaluated prices received by the City's broker or custodian.
- b. Management's estimate of the value of capital assets (infrastructure assets) is based on industry standards.
- c. The estimated useful lives of capital assets for depreciation purposes are based on industry standards.

Significant Audit Findings (Continued)

Qualitative Aspects of Accounting Practices (Continued)

- d. The annual required contributions, pension expense, net pension liability and corresponding deferred outflows of resources and deferred inflows of resources for the City's public defined benefit plans with CalPERS are based on actuarial valuations provided by CalPERS.
- e. The OPEB expense, total OPEB liability, and corresponding deferred outflows of resources and deferred inflows of resources for the City's OPEB plan are based on certain actuarial assumptions and methods prepared by an outside consultant.
- f. Management's estimate of the claims payable liabilities related to general liability and workers' compensation claims are based on actuarial valuations.

We evaluated the key factors and assumptions used to develop these estimates in determining that they were reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were reported in Note 6 regarding CalPERS defined benefit plans, Note 7 regarding claims payable, and Note 8 regarding the City's other post-employment benefit plan.

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 clearly trivial, and communicate them to the appropriate level of management. As a result of our audit-related test work, we proposed no corrections to the financial statements.

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 auditors' 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 3, 2019.

Significant Audit Findings (Continued)

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 management’s discussion and analysis, budgetary comparison schedules - general and major special revenue funds, the schedules of changes in net pension liability and related ratios and the schedules of pension plan contributions, and the schedule of changes in the total OPEB liability and related ratios, which are required supplementary information (RSI) that supplements the 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.

We were engaged to report on the combining and individual nonmajor fund financial statements and schedules (supplementary information), which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory and statistical sections, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance.

Upcoming Changes in Accounting Standards

The Governmental Accounting Standards Board (GASB) issued Statement No. 84, Fiduciary Activities (Statement), which is effective for the City's fiscal year ended June 30, 2020. Due to the significant nature of this Statement, GASB has also issued Implementation Guide No. 2019-2, Fiduciary Activities, to clarify, explain, and elaborate the requirements of this Statement. The objective of the Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Implementation of this Statement could require significant time from staff to identify the City's fiduciary activities, to analyze current activity in the City's agency funds and recharacterize those activities into a custodial fund or another City fund depending upon whether the activity is custodial in nature or related to a City's own-source revenue activity, and, to potentially modify the chart of accounts structure in the City's general ledger for fiduciary activities to accommodate the newly-required statement of changes in fiduciary net position for all fiduciary activities.

Restriction on Use

This information is intended solely for the information and use of City Council and management of the City and is not intended to be, and should not be, used by anyone other than these specified parties.

White Nelson Dick Evans LLP

Irvine, California
December 3, 2019