



CERTIFIED PUBLIC ACCOUNTANTS

- David E. Hale, CPA, CFP
- Donald G. Slater, CPA
- Richard K. Kikuchi, CPA
- Susan F. Matz, CPA
- Shelly K. Jackley, CPA
- Bryan S. Gruber, CPA
- Deborah A. Harper, CPA

Brandon W. Burrows, CPA, Retired

March 19, 2013

To the Honorable Mayor and Members of the City Council
City of Orange, 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 Orange (the City) for the year ended June 30, 2012, and have issued our report thereon dated March 19, 2013. Professional standards require that we provide you with the following information about our responsibilities under generally accepted auditing standards 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 letter to you dated April 5, 2012. 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. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2012. 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 disclosures affecting the financial statements were:

The disclosures of the Successor Agency Trust for Assets of Former Redevelopment Agency in Note 24 to the financial statements identify the outstanding balances as of June 30, 2012 of the former Redevelopment Agency. These balances are dependent on the approval of the activity of transactions within the year ended June 30, 2012 by the California Department of Finance.

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.

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 a separate letter dated March 19, 2013.

Description (Nature) of Audit Difference	Cause	Amount
Cash	Immaterial reconciliation variance	\$ (6,920)
Fiscal Agent GASB 31 Adjustment	Not Calculated	(94,943)
Reconciled cash entries	Not posted in proper period	(46,794)
Total		(148,657)
Effect of Net Unadjusted Audit Difference - prior year		78,039
Net Audit Differences		<u>\$ (70,618)</u>

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 March 19, 2013.

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.



Honorable Mayor and Members of City Council
City of Orange
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Other Matters

With respect to the supplementary information accompanying the financial statements, 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 and *Government Auditing Standards*, 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.

The following new Governmental Accounting Standards Board (GASB) pronouncements were effective for fiscal year 2011-2012 audit:

GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* – The City was not affected by this pronouncement at this time.

The following Governmental Accounting Standards Board (GASB) pronouncements are effective in your next fiscal year 2012-2013 audit and should be reviewed for proper implementation by management:

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statement 14 and 34*

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

This information is intended solely for the use of the members of the City Council or individuals 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,

Brea, California