

CITY OF IRVINE, CALIFORNIA
ORANGE COUNTY GREAT PARK FUNDS
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

CITY OF IRVINE
ORANGE COUNTY GREAT PARK FUNDS
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June 30, 2020

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Orange County Great Park Funds of the City of Irvine, California (the City), which include the Operations Special Revenue Fund and the Development Capital Projects Fund (Orange County Great Park Funds), as of and for the year ended June 30, 2020, and the related notes to the 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.

Auditors' 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 auditors' 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 auditors consider internal control relevant to the City'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 City'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 Orange County Great Park Funds of the City, as of June 30, 2020, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 financial statements. Such missing 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. Our opinions on the financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule for the Orange County Great Park Operations Special Revenue Fund be presented to supplement the financial statements. Such information, although not 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 this 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.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Orange County Great Park Funds and do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2020, the changes in its financial position for the year ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2020, on our consideration of the City'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 and 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.

White Nelson Dick Evans LLP

Irvine, California
October 30, 2020

CITY OF IRVINE
ORANGE COUNTY GREAT PARK FUNDS

BALANCE SHEET

June 30, 2020
(amounts expressed in thousands)

| | Special Revenue Fund | Capital Projects Fund | |
|--|---|--|-------------------|
| | Orange County Great Park Operations | Orange County Great Park Development | Total |
| ASSETS | | | |
| Cash and investments | \$ 148,126 | \$ 15,835 | \$ 163,961 |
| Receivables, net of allowances | 331 | - | 331 |
| Accrued interest | 192 | 38 | 230 |
| Escrow deposits | - | 1,135 | 1,135 |
| Due from other governments | 3,124 | 4 | 3,128 |
| Due from Successor Agency | 171,450 | - | 171,450 |
| TOTAL ASSETS | \$ 323,223 | \$ 17,012 | \$ 340,235 |
| LIABILITIES | | | |
| Accounts payable | \$ 1,205 | \$ 139 | \$ 1,344 |
| Accrued liabilities | 63 | - | 63 |
| Due to Irvine Community Land Trust | 17,145 | - | 17,145 |
| Due to other governments | 1 | - | 1 |
| Retention payable | - | 552 | 552 |
| Unearned revenue | 50 | - | 50 |
| TOTAL LIABILITIES | 18,464 | 691 | 19,155 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unavailable revenue | 3,124 | - | 3,124 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 3,124 | - | 3,124 |
| FUND BALANCES | | | |
| Restricted | 50,335 | - | 50,335 |
| Assigned | 251,300 | 16,321 | 267,621 |
| TOTAL FUND BALANCES | 301,635 | 16,321 | 317,956 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | \$ 323,223 | \$ 17,012 | \$ 340,235 |

See accompanying notes to financial statements.

CITY OF IRVINE
ORANGE COUNTY GREAT PARK FUNDS

STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES

For the year ended June 30, 2020
(amounts expressed in thousands)

| | Special Revenue Fund | Capital Projects Fund | |
|---|---|--|-------------------|
| | Orange County Great Park Operations | Orange County Great Park Development | Total |
| REVENUES | | | |
| Investment income | \$ 3,363 | \$ 772 | \$ 4,135 |
| Charges for services | 6,146 | - | 6,146 |
| Revenue from developers | 4,000 | - | 4,000 |
| Special assessments | 10,601 | - | 10,601 |
| Contributions from other City funds | - | 4,702 | 4,702 |
| Other revenue | 3 | - | 3 |
| TOTAL REVENUES | <u>24,113</u> | <u>5,474</u> | <u>29,587</u> |
| EXPENDITURES | | | |
| Current: | | | |
| General government | 28,903 | 3 | 28,906 |
| Public safety | 740 | - | 740 |
| Public works | 7,112 | 6 | 7,118 |
| Community development | 77 | - | 77 |
| Community services | 6,920 | 12 | 6,932 |
| Transportation | 11 | - | 11 |
| Capital outlay | - | 8,913 | 8,913 |
| TOTAL EXPENDITURES | <u>43,763</u> | <u>8,934</u> | <u>52,697</u> |
| EXCESS OF REVENUES OVER EXPENDITURES | <u>(19,650)</u> | <u>(3,460)</u> | <u>(23,110)</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in | - | 985 | 985 |
| Transfers out | (985) | - | (985) |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>(985)</u> | <u>985</u> | <u>-</u> |
| NET CHANGE IN FUND BALANCES | (20,635) | (2,475) | (23,110) |
| FUND BALANCES, BEGINNING OF YEAR | <u>322,270</u> | <u>18,796</u> | <u>341,066</u> |
| FUND BALANCES, END OF YEAR | <u>\$ 301,635</u> | <u>\$ 16,321</u> | <u>\$ 317,956</u> |

See accompanying notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements present only the Orange County Great Park Operations Special Revenue Fund and Development Capital Projects Fund (Orange County Great Park Funds) of the City of Irvine, California (the City), and do not include any other funds of the City. The City's basic financial statements are available at City Hall.

a. Historical Background

The Orange County Great Park (OCGP) was formed by the City to transform the former United States Marine Corps Air Station (MCAS) El Toro into the first great metropolitan park of the twenty-first century. The former military base was built as a wartime air station for the purpose of aircraft squadron formation and unit training prior to overseas combat. In February 2005, the land was purchased during auction by Lennar Corporation, one of the country's leading residential and commercial developers. This purchase was the beginning of a unique partnership between the City, the federal government, and Lennar Corporation that will result in the formation of the greatest metropolitan park in the United States. Under the terms of a development agreement between Lennar Corporation and the City, Lennar Corporation was granted limited development rights in return for the land and capital that will allow the construction of the OCGP. The agreement required Lennar to transfer more than 1,347 acres to public ownership and contribute \$200 million dollars toward the development of the OCGP. The Great Park Plan will allow development on the property that is consistent with the uses allowed by the voter-approved Measure W. Under the Great Park Plan, the 4,639-acre El Toro property will become a master planned community.

b. Basis of Accounting

The accompanying financial statements for the Orange County Great Park Funds of the City, have been prepared on the modified accrual basis of accounting. Generally, revenues are recognized when they become susceptible to accrual, that is, measurable and available to finance expenditures of the current period. Revenues susceptible to accrual include property taxes and intergovernmental and investment earnings received within 60 days of year-end. Expenditures are recognized when the fund liability is incurred, if measurable. Exchange transactions are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). Voluntary nonexchange transactions are recognized as revenues when all applicable eligibility requirements have been met.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Measurement Focus

The Orange County Great Park Funds are accounted for on a spending or financial flow measurement focus. This means that generally only current assets, current liabilities, and deferred inflow of resources are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance for the Orange County Great Park Funds generally presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

d. Fund Balance Flow Assumptions

Sometimes the government 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 balances 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 government's policy to consider the restricted fund balance to have been depleted before using any of the components of the unrestricted fund balance. Further, when the components of the unrestricted fund balance can be used for the same purpose, the committed fund balance is depleted first, followed by the assigned fund balance. The unassigned fund balance is applied last.

e. Cash and Investments

Cash and investments are pooled with the City's cash and investments for investment purposes. The Orange County Great Park Funds' share of the pooled cash and investments is stated at fair value, as determined by the City.

f. Deferred Inflows of Resources

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of fund balance that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The Orange County Great Park Operations Special Revenue Fund has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category: unavailable revenues from special assessments. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

h. Budgetary Basis of Accounting

The budget for the Orange County Great Park Operations Special Revenue Fund is adopted at a budget category by department level of control, and the budget for the Orange County Great Park Development Capital Projects Fund is adopted at the project level on a basis consistent with the accounting principles generally accepted in the United States of America. Accordingly, actual revenues and expenditures can be compared with the related budget amounts without any significant reconciling items. Budget amounts contained within the required supplementary information section are the original and final amended amounts as reviewed by the Board of Directors and approved by the City Council.

2. CASH AND INVESTMENTS

The Orange County Great Park Funds cash balance is pooled with various other City funds for deposit and investment purposes. Each fund's share of the pooled cash account is separately accounted for, and investment income is allocated to all participating funds based on the relationship of their average daily cash balances to the total of the pooled cash and investments. Information regarding the authorized types of deposits and investments, the type of risks (i.e., credit, interest rate, custodial, etc.), and other disclosures associated with the City's pooled cash and investments is included in the City's basic financial statements, which are available at City Hall.

3. *DUE FROM SUCCESSOR AGENCY*

The City loaned the former redevelopment agency \$134,000,000 to fund the purchase of property located in the Orange County Great Park Redevelopment Area. Upon dissolution of the redevelopment agency on February 1, 2012, this loan balance became a debt of the Successor Agency. On October 24, 2014, a settlement agreement was entered into that resolved lawsuits filed by the City, Successor Agency, and Irvine Community Land Trust against the State of California. The lawsuit was related to debts owed by the former Redevelopment Agency to the City and Irvine Community Land Trust that the State Department of Finance denied property tax funding. The settlement agreement calls for the State of California to remit to the Successor Agency a total of \$292,000,000 in property tax receipts over an unspecified period, which when received by the Successor Agency will be remitted to the City. As of June 30, 2020, the outstanding balance due from the Successor Agency is \$171,449,608.

As part of the settlement agreement, the City agreed to pay the Irvine Community Land Trust 5% of the settlement agreement for a total of \$14,600,000. On January 26, 2016, the City Council approved an increase in funding to the Irvine Community Land Trust from 5% to 10% of the settlement agreement. The total due to the Irvine Community Land Trust from the City at June 30, 2020, was \$17,144,961.

4. *INTERFUND TRANSFERS*

Interfund transfers of \$985,140 were made to fund various capital projects related to the OCGP.

5. *LEASES*

The City has various operating lease rental agreements producing annual rental revenue to the Orange County Great Park Funds. Rental revenue is included in charges for services in the accompanying financial statements.

The OCGP fund receives revenue for several operating leases for sites within the former MCAS El Toro. The OCGP is currently under development, and thus, lease rentals are only projected as far out as July 2025, with some leases expiring or planned to be terminated sooner. The leases are for green waste recycling, office/manufacturing buildings, farming, and other uses of the property.

A lease with Tierra Verde Industries began in May 2006 has been amended and restated over the years and is for two parcels located in the OCGP. The first parcel is approximately 44 acres and is used as a green waste recycling center. The quarterly rent for this property as of June 30, 2020 is \$97,629. An additional \$0.69 per ton is charged as a Green Waste Host Fees, and the amount collected June 30, 2020, was \$553,775. The second parcel under this lease is buildings used for office space, light maintenance, and manufacturing. The amount of rent received for both parcels for the fiscal year ended June 30, 2020, was \$517,901. The current lease agreement terminates May 20, 2022.

CITY OF IRVINE
ORANGE COUNTY GREAT PARK FUNDS
Notes to Financial Statements
June 30, 2020

5. LEASES (CONTINUED)

OCGP has a farming lease with El Toro Farms, LLC to grow strawberries and vegetable crop. The lease began in July 2005 and has been renewed over the years and currently terminates June 30, 2021. Rental revenue at June 30, 2020, was \$31,596.

OCGP has a lease with Orange County Produce to grow strawberries and other crops. The lease began in July 2010 and terminates July 25, 2025. Rental revenue at June 30, 2020, was \$30,045.

OCGP has a lease with AMCI/Omnicom for the use of other sites within OCGP. The lease is month to month with \$54,000 received in the fiscal year June 30, 2020.

The future minimum rental revenue to be received from the aforementioned operating leases as of June 30, 2020, is as follows:

| Fiscal Year Ending June 30, | Annual Rent |
|-----------------------------------|---------------------|
| 2021 | \$ 763,360 |
| 2022 | 589,777 |
| 2023 | 30,045 |
| 2024 | 30,045 |
| 2025 | 30,045 |
| 2026-2029 | 2,086 |
| | <u>\$ 1,445,358</u> |

6. LITIGATION

At June 30, 2020, the City was involved as a defendant in several lawsuits and claims arising out of ordinary conduct of its affairs as they relate to the OCGP. It is the opinion of management and the City’s legal counsel that settlement of these lawsuits and claims, if any, will not have a material effect on the financial position of the Orange County Great Park Funds.

7. SUBSEQUENT EVENTS

Events occurring after June 30, 2020, have been evaluated for possible adjustment to the financial statements or disclosure as of October 30, 2020, which is the date these financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF IRVINE
ORANGE COUNTY GREAT PARK OPERATIONS SPECIAL REVENUE FUND

BUDGETARY COMPARISON SCHEDULE

For the year ended June 30, 2020
(amounts expressed in thousands)

| | Budgeted Amount | | Actual | Variance with |
|---|-----------------|---------------|---------------|------------------------|
| | Original | Final | | Final Budget |
| | | | | Positive (Negative) |
| REVENUES | | | | |
| Investment income | \$ 1,607 | \$ 1,607 | \$ 3,363 | \$ 1,756 |
| Charges for services | 7,279 | 8,529 | 6,146 | (2,383) |
| Revenue from developers | 1,250 | 1,250 | 4,000 | 2,750 |
| Special assessment | 10,383 | 10,383 | 10,601 | 218 |
| Other revenue | - | - | 3 | 3 |
| TOTAL REVENUES | 20,519 | 21,769 | 24,113 | 2,344 |
| EXPENDITURES | | | | |
| Current | | | | |
| City Manager | | | | |
| Personnel | 2,127 | 2,127 | 1,830 | 297 |
| Supplies | 114 | 114 | 11 | 103 |
| Internal service allocations | 83 | 83 | 83 | - |
| Contract services | 27,345 | 28,055 | 26,141 | 1,914 |
| Training and business expense | 40 | 40 | 9 | 31 |
| Capital equipment | 20 | 20 | - | 20 |
| Miscellaneous | 128 | 128 | 38 | 90 |
| Total City Manager | 29,857 | 30,567 | 28,112 | 2,455 |
| City Clerk | | | | |
| Personnel | 207 | 207 | 179 | 28 |
| Total City Clerk | 207 | 207 | 179 | 28 |
| Human Resources & Innovation | | | | |
| Personnel | 98 | 98 | 94 | 4 |
| Total Human Resources & Innovation | 98 | 98 | 94 | 4 |
| Fiscal Management & Strategic Planning | | | | |
| Personnel | 724 | 724 | 499 | 225 |
| Internal service allocations | 16 | 16 | 16 | - |
| Contract services | 7 | 7 | 3 | 4 |
| Training and business expenses | 2 | 2 | - | 2 |
| Total Fiscal Management & Strategic Planning | 749 | 749 | 518 | 231 |
| Total General Government | 30,911 | 31,621 | 28,903 | 2,718 |
| Public Safety | | | | |
| Personnel | 1,032 | 1,032 | 701 | 331 |
| Supplies | 7 | 7 | - | 7 |
| Internal service allocations | 39 | 39 | 39 | - |
| Capital equipment | 45 | 45 | - | 45 |
| Total Public Safety | 1,123 | 1,123 | 740 | 383 |

(Continued)

CITY OF IRVINE
ORANGE COUNTY GREAT PARK OPERATIONS SPECIAL REVENUE FUND

BUDGETARY COMPARISON SCHEDULE
(CONTINUED)

For the year ended June 30, 2020
(amounts expressed in thousands)

| | Budgeted Amount | | Actual | Variance with |
|--------------------------------------|-----------------|-----------------|-----------------|------------------------|
| | Original | Final | | Final Budget |
| | | | | Positive (Negative) |
| Public Works | | | | |
| Personnel | \$ 1,560 | \$ 1,560 | \$ 1,146 | \$ 414 |
| Supplies | 199 | 199 | 164 | 35 |
| Internal service allocations | 86 | 86 | 86 | - |
| Contract services | 5,891 | 5,891 | 4,803 | 1,088 |
| Training and business expenses | 6 | 6 | - | 6 |
| Utilities | 1,164 | 1,164 | 913 | 251 |
| Capital equipment | 64 | 64 | - | 64 |
| | <u>8,970</u> | <u>8,970</u> | <u>7,112</u> | <u>1,858</u> |
| Total Public Works | | | | |
| Community Development | | | | |
| Personnel | 158 | 158 | 72 | 86 |
| Supplies | 3 | 3 | - | 3 |
| Contract services | 127 | 127 | 5 | 122 |
| | <u>288</u> | <u>288</u> | <u>77</u> | <u>211</u> |
| Total Community Development | | | | |
| Community Services | | | | |
| Personnel | 3,965 | 3,965 | 3,275 | 690 |
| Supplies | 402 | 402 | 214 | 188 |
| Internal service allocations | 1,496 | 1,496 | 1,496 | - |
| Contract services | 2,098 | 2,419 | 1,750 | 669 |
| Training and business expenses | 40 | 40 | 8 | 32 |
| Capital equipment | 15 | 119 | 88 | 31 |
| Miscellaneous | 118 | 155 | 89 | 66 |
| | <u>8,134</u> | <u>8,596</u> | <u>6,920</u> | <u>1,676</u> |
| Total Community Services | | | | |
| Transportation | | | | |
| Personnel | 15 | 15 | 11 | 4 |
| Contract services | 10 | 10 | - | 10 |
| | <u>25</u> | <u>25</u> | <u>11</u> | <u>14</u> |
| Total Transportation | | | | |
| TOTAL EXPENDITURES | <u>48,604</u> | <u>49,776</u> | <u>43,763</u> | <u>6,625</u> |
| EXCESS OF REVENUES OVER EXPENDITURES | <u>(28,085)</u> | <u>(28,007)</u> | <u>(19,650)</u> | <u>8,357</u> |

(Continued)

CITY OF IRVINE
ORANGE COUNTY GREAT PARK OPERATIONS SPECIAL REVENUE FUND

BUDGETARY COMPARISON SCHEDULE
(CONTINUED)

For the year ended June 30, 2020
(amounts expressed in thousands)

| | Budgeted Amount | | Actual | Variance with Final Budget Positive (Negative) |
|---|-----------------|-------------|------------|---|
| | Original | Final | | |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | \$ (41,832) | \$ (41,832) | \$ (985) | \$ 40,847 |
| TOTAL OTHER FINANCING SOURCES (USES) | (41,832) | (41,832) | (985) | 40,847 |
| NET CHANGE IN FUND BALANCES | (69,917) | (69,839) | (20,635) | 49,204 |
| FUND BALANCES, BEGINNING OF YEAR | 322,270 | 322,270 | 322,270 | - |
| FUND BALANCES, END OF YEAR | \$ 252,353 | \$ 252,431 | \$ 301,635 | \$ 49,204 |

INDEPENDENT AUDITORS' 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
of the City of Irvine
Irvine, 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 Governmental Auditing Standards issued by Comptroller General of the United States, the financial statements of the Orange County Great Park Funds of the City of Irvine (the City), which include the Operations Special Revenue Fund and the Development Capital Projects Fund, as of and for the year ended June 30, 2020, and the related notes to the financial statements and have issued our report thereon dated October 30, 2020.

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) as it relates to the Orange County Great Park Funds to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control related to the Orange County Great Park Funds. Accordingly, we do not express an opinion on the effectiveness of the City's internal control related to the Orange County Great Park Funds.

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 City'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as Finding 2020 - 001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Orange County Great Park Funds are free from material misstatements, 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*.

We noted a certain other matter that we have reported to management and the City Council in a separate letter dated October 30, 2020.

City's Response to Finding

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 related to the Orange County Great Park Funds. 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 related to the Orange County Great Park Funds. Accordingly, this communication is not suitable for any other purpose.

White Nelson Dick Evans LLP

Irvine, California
October 30, 2020

CITY OF IRVINE
ORANGE COUNTY GREAT PARK FUNDS

SCHEDULE OF FINDINGS AND RESPONSES

For the year ended June 30, 2020

Finding 2020-001 – Significant Deficiency – Accrued Liabilities

During our search for unrecorded liabilities, we identified 2 instances out of sample of 59, where the City had accrued a liability for expenditures that should not have been recognized in the fiscal year ended June 30, 2020. Both instances involved the receipt of goods that occurred after year end. We recommend that the City enhance the year-end closing procedures related to accrued liabilities to specifically identify transactions involving the receipt of goods at or near the fiscal year end to ensure that such transactions are accounted for in the proper period.

City's Response

The City is in the process of implementing a new invoice routing system which will include the receiver for the goods or services received. This new process will provide additional information required to ensure that goods or services received are recorded in the correct fiscal year.