CITY OF SAN LEANDRO
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS

FOR THE YEAR ENDED
JUNE 30, 2013

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CITY OF SAN LEANDRO
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS

For The Year Ended June 30, 2013

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MAZE & ASSOCIATES

MEMORANDUM ON INTERNAL CONTROL

To the City Council of
the City of San Leandro, California

In planning and performing our audit of the basic financial statements of the City of San Leandro as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 and that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, we identified certain deficiencies in internal control that we consider to be material weaknesses that are included on the Schedule of Material Weaknesses.

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.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions that we believe to be of potential benefit to the City.

Management responses included in this report have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, City Council, others within the organization, and agencies and pass-through entities requiring compliance with generally accepted government auditing standards, and is not intended to be and should not be used by anyone other than these specified parties.

Maze & Associates

Pleasant Hill, California
December 13, 2013

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CITY OF SAN LEANDRO
MEMORANDUM ON INTERNAL CONTROL
JUNE 30, 2013

SCHEDULE OF MATERIAL WEAKNESS

FS2013-01: Closing of General Ledger and Private Purpose Trust Fund Accounting

Criteria: The City had elected to be the Successor Agency to the former Redevelopment Agency. As a result, the City has a responsibility to make sure that the financial data recorded in the general ledger for the Successor Agency to the former Redevelopment Agency Private Purpose Trust Fund (PPT Fund) are proper and accurate.

Condition:

- The general ledger for the Successor Agency to the Redevelopment Agency Private Purpose Trust Fund (PPT Fund) required material audit journal entry adjustments. These adjustments required both the auditor and City staff a considerable amount of time to balance the fund and to ensure that the amounts are accurate. For example, the PPT Fund required a $6.76 million audit journal entry adjustment to record the King Properly settlement long-term liability. There was also another $3.98 million audit journal entry adjustment to write down the amount of land held for resale in the PPT Fund.

- Footnote disclosures for Successor Agency are complex for the City of San Leandro. It also required substantial amount of time during the audit to make sure that they were updated and accurate.

Effect: As a result, material audit journal entries adjustments were made to ensure that the financial statements are fairly stated. Substantial amount of time was spent by both the City staff and the auditor in order to assemble the City's Comprehensive Annual Financial Report (CAFR) and to properly record and disclose the transactions and account balances for the PPT Fund.

Cause:

- It appears that City staff did not have sufficient coordination and communication to make sure that PPT Fund financial data are accurately recorded in the general ledger; and footnote disclosures are accurately updated.
- City staff was unaware of all the intricate accounting issues associated with properly recording transactions for the PPT Fund.

Recommendation:

- The Successor Agency has a number of intricate and unusual accounting transactions. In addition, there are several upcoming Governmental Accounting Standards Board Statements that are required to be implemented. As such, City should have adequate staffing, knowledge and training to make sure that these transactions are recorded accurately. If needed, the City should consider sending staff to outside training.

- City staff should coordinate and have sufficient communications during the year and at year-end closing to make sure that all significant activities are properly and accurately recorded in the general ledger. Footnote disclosure related to Successor Agency activities should be reviewed and revised to make sure that the disclosures are accurately updated.

SCHEDULE OF MATERIAL WEAKNESS

Management Response: City staff seeks training especially for new accounting requirements. Funding for staff to coordinate financial reporting for the dissolved redevelopment agency is extremely limited. However, there will be a much better communication among City staff to understand the activities, how transactions affect the financial reports and discussions for the footnote section.

SCHEDULE OF OTHER MATTERS

FS2013-02: Super-User Rights of the Financial System

Criteria: The financial system super-user is an individual who has full access to the City's financial system including all modules and all functions. In a good internal control environment, no employee in the Finance Department should have super-user rights.

Condition: We noted that one employee; an Accountant II, has super-user rights to the Eden Accounting Software System.

Effect: When an accounting staff has super-user rights, there is an increased risk that unauthorized transactions or adjustments may be made to the general ledger without proper review and approval.

Cause: The City believes that it has a small Finance Department and therefore the employee within Finance need to have access to be able to change the system administration functions.

Recommendation: While we understand the City has a limited number of staff available to provide system administration functions, the City should consider restricting super user rights. The City should remove the super user rights from all Finance Department employees. Each employee should only have access to the module he/she is responsible for managing. Access to other modules of the financial system not required to perform the duties of a given employee should be limited to a read only basis.

Management Response: The super user rights for the Finance staff is necessary as the user needs to give other staff the rights for the various modules, reports, and review. The super user also trains users and guides them when users have problems that need to be resolved in all of the various modules in the EDEN financial system. The financial system has an audit report that records access and changes, which is monitored by management.

CITY OF SAN LEANDRO
MEMORANDUM ON INTERNAL CONTROL
JUNE 30, 2013

SCHEDULE OF OTHER MATTERS

FS2013-03: Investment Policy – Internal Control

Criteria: Per the City's Fiscal Year 2012-2013 Investment Policy Statement (Reso. 2012-093, adopted on July 16, 2012), page 7 of 13, under the heading **"Internal Control and Review"**:

> "The Finance Director will establish an annual review process to be conducted by an independent external auditor. The review will provide internal control by assuring compliance with established City policies and procedures."

Condition: In planning and performing our audit of the City's basic financial statements, our considerations of the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures is for the limited purpose of expressing our opinions on the financial statements. We have not been specifically engaged to perform any review the City's Investment Policy internal control or compliance. We understand that no such reviews are conducted by other independent external auditors.

Effect: It appears that the City is not in compliance with this part of the Investment Policy.

Cause: We understand that the City's former auditors were, at one point, engaged to conduct this type of review. In addition, due to transitions of Finance Directors, it appears that the City has not had the opportunity to update this section of the Investment Policy.

Recommendation: If deemed not necessary, the City should remove this section from the Investment Policy. Alternatively, as required by the Investment Policy, the City should engaged an independent external auditor to perform an agreed upon procedures to review the internal control and compliance with the City's Investment Policy.

Management Response: City will further review the Investment Policy and, if appropriate, change or remove the statement that requires external auditor review to ensure that the City complies with its Investment Policy. Staff currently provides annual updates to the City's Investment Policy, quarterly performance reports and distributes monthly transaction detail for the City Investment portfolio.

SCHEDULE OF OTHER MATTERS

NEW GASB PRONOUNCEMENTS OR PRONOUNCEMENTS NOT YET EFFECTIVE

The following comment represents new pronouncements taking affect in the next few years. We have cited them here to keep you abreast of developments:

EFFECTIVE FISCAL 2013/14:

GASB 65 - Items Previously Reported as Assets and Liabilities

This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations.

GASB 70 - Accounting and Financial Reporting for Nonexchange Financial Guarantees

Some governments extend financial guarantees for the obligations of another government, a not-for-profit entity, or a private entity without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). As a part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity that issued the obligation does not fulfill its payment requirements. Also, some governments issue obligations that are guaranteed by other entities in a nonexchange transaction. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range.

This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units.

This Statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive nonexchange financial guarantees.

SCHEDULE OF OTHER MATTERS

GASB 70 - Accounting and Financial Reporting for Nonexchange Financial Guarantees (Continued)

The provisions of this Statement are effective for reporting periods **beginning after June 15, 2013**. Except for disclosures related to cumulative amounts paid or received in relation to a financial guarantee, the provisions of this Statement are required to be applied retroactively. Disclosures related to cumulative amounts paid or received in relation to a financial guarantee may be applied prospectively.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees. This Statement also will enhance the information disclosed about a government's obligations and risk exposure from extending nonexchange financial guarantees. This Statement also will augment the ability of financial statement users to assess the probability that governments will repay obligation holders by requiring disclosures about obligations that are issued with this type of financial guarantee.

SCHEDULE OF OTHER MATTERS

EFFECTIVE FISCAL 2014/15:

GASB 68 - Accounting and Financial Reporting for Pensions (an amendment of GASB 27)

This Statement will have material impact on the City's financial statements. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared.

The following are the major impacts:

- This Statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit pensions (**net pension liability**) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (**total pension liability**), **less** the amount of the pension plan's **fiduciary net position**.

- Actuarial valuations of the total pension liability are required to be performed at least every two years, with more frequent valuations encouraged. If a valuation is not performed as of the measurement date, the total pension liability is required to be based on update procedures to roll forward amounts from an earlier actuarial valuation (performed as of a date no more than 30 months and 1 day prior to the employer's most recent year-end).

- The actuarial present value of projected benefit payments is required to be attributed to periods of employee service using the entry age actuarial cost method with each period's service cost determined as a level percentage of pay. The actuarial present value is required to be attributed for each employee individually, from the period when the employee first accrues pensions through the period when the employee retires.

SCHEDULE OF OTHER MATTERS

GASB 68 - Accounting and Financial Reporting for Pensions (an amendment of GASB 27) (Continued)

Single and Agent Employers

- In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a single or agent employer that does not have a special funding situation is required to recognize a liability equal to the net pension liability. The net pension liability is required to be measured as of a date no earlier than the end of the employer's prior fiscal year (the measurement date), consistently applied from period to period.

- The pension expense and deferred outflows of resources and deferred inflows of resources related to pensions that are required to be recognized by an employer primarily result from changes in the components of the net pension liability—that is, changes in the total pension liability and in the pension plan's fiduciary net position.

- This Statement requires that most changes in the net pension liability be included in pension expense in the period of the change. For example, changes in the total pension liability resulting from current-period service cost, interest on the total pension liability, and changes of benefit terms are required to be included in pension expense immediately. Projected earnings on the pension plan's investments also are required to be included in the determination of pension expense immediately.

SCHEDULE OF OTHER MATTERS

GASB 68 - Accounting and Financial Reporting for Pensions (an amendment of GASB 27) (Continued)

- The effects of certain other changes in the net pension liability are required to be included in pension expense over the current and future periods. The effects on the total pension liability of (1) changes of economic and demographic assumptions or of other inputs and (2) differences between expected and actual experience are required to be included in pension expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees), beginning with the current period. The effect on the net pension liability of differences between the projected earnings on pension plan investments and actual experience with regard to those earnings is required to be included in pension expense in a systematic and rational manner over a closed period of five years, beginning with the current period. Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions.

- Employer contributions subsequent to the measurement date of the net pension liability are required to be reported as deferred outflows of resources.

- In governmental fund financial statements: A net pension liability should be recognized to the extent the liability is normally expected to be liquidated with expendable **available** financial resources. Pension expenditures should be recognized equal to the total of (1) amounts paid by the employer to the pension plan and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources.

- Notes to financial statements of single and agent employers include descriptive information, such as the types of benefits provided and the number and classes of employees covered by the benefit terms. Single and agent employers also should disclose the following information:

  - For the current year, sources of changes in the net pension liability

  - Significant assumptions and other inputs used to calculate the total pension liability, including those about inflation, salary changes, ad hoc postemployment benefit changes (including ad hoc COLAs), and inputs to the discount rate, as well as certain information about mortality assumptions and the dates of experience studies.

  - The date of the actuarial valuation used to determine the total pension liability, information about changes of assumptions or other inputs and benefit terms, the basis for determining employer contributions to the pension plan, and information about the purchase of allocated insurance contracts, if any.

SCHEDULE OF OTHER MATTERS

GASB 68 - Accounting and Financial Reporting for Pensions (an amendment of GASB 27) (Continued)

- Required Supplementary Information: Single and agent employers are required to present in required supplementary information the following information, determined as of the measurement date, for each of the 10 most recent fiscal years:

  - Sources of changes in the net pension liability

  - The components of the net pension liability and related ratios, including the pension plan's fiduciary net position as a percentage of the total pension liability, and the net pension liability as a percentage of covered-employee payroll.

  - Schedule covering each of the 10 most recent fiscal years that includes information about the actuarially determined contribution, contributions to the pension plan, and related ratios. If the contributions of a single or agent employer are not actuarially determined but are established in statute or by contract, the employer should present a schedule covering each of the 10 most recent fiscal years that includes information about the statutorily or contractually required contribution rates, contributions to the pension plan, and related ratios.

  - Significant methods and assumptions used in calculating the actuarially determined contributions, if applicable, should be presented as notes to required supplementary information. In addition, the employer should explain factors that significantly affect trends in the amounts reported in the schedules, such as changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions.

Cost-Sharing Employers

- Government-wide and accrual basis of accounting financial statements: A cost-sharing employer that does not have a special funding situation is required to recognize a liability for its **proportionate** share of the net pension liability (of all employers for benefits provided through the pension plan)—the collective net pension liability. An employer's proportion is required to be determined on a basis that is consistent with the manner in which contributions to the pension plan are determined, and consideration should be given to separate rates, if any, related to separate portions of the collective net pension liability. The use of the employer's projected long-term contribution effort as compared to the total projected long-term contribution effort of all employers as the basis for determining an employer's proportion is encouraged.

- A cost-sharing employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions.

SCHEDULE OF OTHER MATTERS

GASB 68 - Accounting and Financial Reporting for Pensions (an amendment of GASB 27) (Continued)

- In addition, the effects of (1) a change in the employer's proportion of the collective net pension liability and (2) differences during the measurement period between the employer's contributions and its proportionate share of the total of contributions from employers included in the collective net pension liability are required to be determined. These effects are required to be recognized in the employer's pension expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees). The portions of the effects not recognized in the employer's pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions. Employer contributions to the pension plan subsequent to the measurement date of the collective net pension liability also are required to be reported as deferred outflows of resources related to pensions.

- In governmental fund financial statements, the cost-sharing employer's proportionate share of the collective net pension liability is required to be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. Pension expenditures should be recognized equal to the total of (1) amounts paid by the employer to the pension plan and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources.

- Notes to financial statements of cost-sharing employers include descriptive information about the pension plans through which the pensions are provided. Cost-sharing employers should identify the discount rate and assumptions made in the measurement of their proportionate shares of net pension liabilities, similar to the disclosures about those items that should be made by single and agent employers. Cost-sharing employers, like single and agent employers, also should disclose information about how their contributions to the pension plan are determined.

- This Statement requires cost-sharing employers to present in required supplementary information 10-year schedules containing (1) the net pension liability and certain related ratios and (2) if applicable, information about statutorily or contractually required contributions, contributions to the pension plan, and related ratios.

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CURRENT STATUS OF PRIOR YEAR SIGNIFICANT DEFICIENCY

2012-01: Timeliness of the Preparation of the Comprehensive Annual Financial Report Draft (CAFR)

Criteria:

The Finance Department prepares the City's CAFR which is then audited by our firm. The CAFR must be complete and accurate prior to the start of the final phase of the audit, in order for the audit to be completed on a timely basis.

Condition:

The City CAFR was not completed by the Finance Department during the majority of our scheduled final audit fieldwork, which was also an issue during the prior year engagement. In addition, once the current year draft report was provided to the auditors, there were numerous corrections and edits that were required to ensure accuracy of the final version. Furthermore, the Finance Department was also dealing with Redevelopment Agency issue's during the course of scheduled fieldwork.

Effect:

Substantial time is required by both City staff and auditors in order to get the City's financial statements to its final version, if the document provided is incomplete and inaccurate.

Cause:

The City's staff has been used for other projects due to the dissolution of the Redevelopment Agency.

Recommendation:

We understand that due to the dissolution of the Redevelopment Agency, the City's staff has been used for other projects, but the City should schedule time to ensure the completeness and accuracy of the CAFR prior to handing that document over to the auditors.

Current Status (Prepared by Management): City will make sure that documents are ready for the auditors.

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CURRENT STATUS OF PRIOR YEAR OTHER MATTERS

2012-02 Timely Preparation of Bank Reconciliations

Criteria:

Cash is the asset at greatest risk of misappropriation. Bank reconciliations play an important role in the effectiveness of an entity's internal control structure. They should be prepared on a timely basis, generally within 30 day of receiving the statements from the financial institution, and reviewed by an employee other than the preparer.

Condition:

During our testing on July 23, 2012, we noted that the May 2012 bank reconciliation had not been reviewed.

Effect:

The City is not finalizing its monthly bank reconciliations in a timely manner, increasing the potential that mistakes or bank error would not be caught timely.

Cause:

City staff has overlooked completing the bank reconciliation process due to other job assignments.

Recommendation:

We suggest that bank accounts be reconciled and all differences between book and bank balances are reviewed on a timely basis by appropriate accounting personnel, so that errors and adjustments can be quickly identified and corrected.

Current Status (Prepared by Management): City has been consistently on time with bank reconciliation in Fiscal year 2013/14.

CURRENT STATUS OF PRIOR YEAR OTHER MATTERS

2012-03 Shoreline Enterprise Funds Fund Deficit and Advance to the General Fund

Criteria:

The City should have a balanced budget for its various funds.

Condition:

The Shoreline Fund had deficit net assets of $2,817,982 as of June 30, 2012, yet the Shoreline Fund has an advance of $7,106,392 from the General Fund to finance capital improvements at the Marina and Golf Course. Principal payments are made annually provided the fund has sufficient resources.

Effect:

The fund may be disclosing a liability that the Shoreline Fund may not be able to repay.

Cause:

The City is experiencing sustained accumulated operating losses in the Shoreline Fund.

Recommendation:

The City should continue to research ideas for revenue collection and to work towards a balanced budget. Furthermore, the City should evaluate the collectability of this advance to the Shoreline Fund.

Current Status (Prepared by Management): City will develop and expand the shoreline area that will potentially increase revenue in the next coming years. Currently, there are ideas for projects being discussed with various groups of developers for the future of the San Leandro Marina.

CURRENT STATUS OF PRIOR YEAR OTHER MATTERS

2012-04 Support for Accounts Receivable Advance Payments (General Fund)

Criteria:

The City should be able to support amounts that are reported in the financial statements and general ledger system.

Condition:

During the course of the audit we requested five samples that were selected from the detail listing for general ledger account 010-220-2201, the City was unable to provide any documentation for the sample.

Effect:

Information that is presented in the financial statements and amounts recorded in the City's general ledger system may be incorrect or may not be an obligation of the City.

Cause:

These are contracts with the Engineering department that have made deposits for projects.

Recommendation:

We recommend the City retain proper documentation for all obligations, transactions, and managerial estimates.

Current Status (Prepared by Management): Corrective actions are in place.

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MAZE & ASSOCIATES

REQUIRED COMMUNICATIONS

December 13, 2013

To the City Council of
the City of San Leandro, California

We have audited the basic financial statements of the City of San Leandro for the year ended June 30, 2013. Professional standards require that we communicate to you the following information related to our audit under generally accepted auditing standards and, *Government Auditing Standards* and OMB Circular A-133.

Significant Audit Findings

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of San Leandro are described in Note 1 to the financial statements. The following pronouncements became effective, but did not have a material effect on the financial statements:

GASB 60 - *Accounting and Financial Reporting for Service Concession Arrangements*

GASB 61 – *The Financial Reporting Entity – Omnibus – An Amendment of GASB Statement No. 14 and No. 34 – Component Unit Focus*

GASB 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*

The following pronouncements became effective, and required format changes in the certain financial statements and nomenclature revisions in the footnotes accompanying the financial statements.

GASB 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

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Unusual Transactions, Controversial or Emerging Areas

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.

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. The most sensitive estimate(s) affecting the City's financial statements were:

> *Estimated Fair Value of Investments:* As of June 30, 2013, the City held approximately $73.3 million of cash and investments as measured by fair value as disclosed in Note 2 to the Financial Statements. Fair value is essentially market pricing in effect as of June 30, 2013. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2013.
>
> *Estimate of Depreciation:* Management's estimate of the depreciation is based on useful lives determined by management. These lives have been determined by management based on the expected useful life of assets as disclosed in Note 1 to the financial statements. We evaluated the key factors and assumptions used to develop the depreciation estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements was the disclosure of Redevelopment Agency dissolution and in Note 17 to the financial statements.

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. Management has corrected all/certain such misstatements. In addition, two misstatements for the Successor Agency Private-purpose Trust Fund in the total amount of $10.74 million, detected as a result of audit procedures and corrected by management were material, both individually and in the aggregate, to the aggregate remaining fund information of the financial statements taken as a whole.

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 a management representation letter dated December 13, 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 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 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.

Other Information Accompanying the Financial Statements

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, 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.

With respect to the required supplementary information accompanying the financial statements, we 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 basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not express an opinion nor 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.

The Introductory and Statistical Sections included as part of the Comprehensive Annual Financial Report [modify for any portion that is not applicable] have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we did not express an opinion nor provide any assurance on them.

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

Very truly yours,

Maze & Associates