

ATTACHMENT B
Required Audit Communications

REQUIRED AUDIT COMMUNICATIONS

The Honorable Mayor and
Members of the City Council
City of Newport Beach
Newport Beach, 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 Newport Beach (City) as of and for the year ended June 30, 2024, and have issued our report thereon dated December 30, 2024. Professional standards require that we advise you of the following matters during our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated July 9, 2024, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence.

We identified self-review threats to independence as a result of non-attest services provided. Those non-attest services included assisting in preparation of the financial statements, recording journal entries detected during the audit process, assisting in updating infrastructure records and assisting in preparation of the State Controller's Report. To mitigate the risk, management has reviewed the financial statements and compared amounts to the accounting records, reviewed proposed journal entries to supporting documentation and posted the journal entries to the accounting records. Additionally, management has reviewed the updates to infrastructure records and compared amounts to underlying supporting documentation. Furthermore, management has reviewed the State Controller's Report and agreed the amounts to its accounting records.

Significant Risks Identified

We have identified the following significant risks:

- Risk of errors in capital asset records: We evaluated the accuracy of depreciation and accumulated depreciation by performing a full recalculation by capital asset.
- Risk of valuation as a result a transfer of the other post-employment benefits (OPEB) trust: We reviewed the transfer of the trust noting the complete closure of CERBT and opening of the trust with PARS.
- Compliance with federal grant requirements. We plan to review the City's Schedule of Expenditure of Federal Awards and select major programs to test for compliance with federal grant requirements. This work is scheduled to begin in late January.

Qualitative Aspects of the City's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in Note 1 to the financial statements. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments. The most sensitive accounting estimates affecting the financial statements are:

- Management's estimate of the net pension liability.
- Management's estimate of the net OPEB liability.

- Management's estimates of the claims payable liabilities related to general liability and workers' compensation claims.
- Useful lives of depreciable assets.

Management's estimate of the pension liability, OPEB liability and claims payable liabilities are based on actuarial valuation reports. Management's estimate of the useful lives of assets are based on actual experience with the use of similar assets over time. We evaluated the key factors and assumptions used to develop the pension liability, OPEB liability, claims payable liabilities and useful lives of assets and determined they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the City's financial statements relate to pensions in Note 11 and OPEB in Note 12. The financial statement disclosures are neutral, consistent, and clear.

Significant Unusual Transactions

For purposes of this communication, professional standards require us to communicate to you significant unusual transactions identified during our audit. There were no significant unusual transactions identified as a result of our audit procedures.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards also require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all identified misstatements. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements identified by us as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole or applicable opinion units.

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Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the City's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested and received certain written representations from management, which are included in a separate letter dated December 30, 2024.

Management Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters Findings, or Issues

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City's auditors.

Other Information Included in the Annual Comprehensive Financial Report

Pursuant to professional standards, our responsibility as auditors for other information, whether financial or nonfinancial, included in the City's annual report, does not extend beyond the information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, in accordance with such standards, we have read the information and considered whether such information, or the manner of its presentation, was materially inconsistent with its presentation in the financial statements.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

This report 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.

Dawn Furr LLP

Irvine, California
December 30, 2024