

ATTACHMENT B

AUDITOR'S REQUIRED COMMUNICATIONS WITH THE AUDIT COMMITTEE

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) for the year ended June 30, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information during the Finance Committee meeting of May 27, 2021. 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. During the year, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 84 related to the Fiduciary Funds. The cumulative effect of the implementation of GASB Statement No. 84 as of the beginning of the year is described further in Notes 1 and 18 to the financial statements. The City also implemented GASB Statement No. 98 to replace the term and acronym for *Comprehensive Annual Financial Report* with *Annual Comprehensive Financial Report (ACFR)*. 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:

- Judgments involving the calculation of the pension liability.
- Judgments involving the calculation of the other post-employment benefit (OPEB) liability.
- Judgments involving estimates of the claims payable liabilities related to general liability and workers' compensation claims.

Management's estimate of the pension liability, OPEB liability and claims payable liabilities are based on actuarial valuation reports. We evaluated the key factors and assumptions used to develop the pension liability, OPEB liability and claims payable liabilities in determining that it is 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:

- Disclosures of the net pension liability and related amounts
- Disclosures of the net OPEB liability and related amounts

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 such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's 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, which 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 December 23, 2021.

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 information* for the General Fund and each major special revenue fund, *Schedule of Changes in the Net Pension Liability and Related Ratios – Miscellaneous Plan, Schedule of Contributions – Miscellaneous Plan, Schedule of Changes in the Net Pension Liability and Related Ratios – Safety Plan, Schedule of Contributions – Safety Plan, Schedule of Changes in the Net OPEB Liability and Related Ratios, Schedule of Contributions - OPEB*, which are required supplementary information (RSI) that supplements the basic 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 *combining and individual nonmajor fund financial statements*, 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 section* and the *statistical section*, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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.

Dawn Furr LLP

Irvine, California
December 23, 2021