

REQUIRED AUDIT COMMUNICATIONS

Honorable Mayor and City Council
City of Huntington Beach
Huntington 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 Huntington Beach for the year ended June 30, 2020. 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 in our letter to you dated December 16, 2020. 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 of Huntington Beach are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2020. We noted no transactions entered into by the City of Huntington Beach 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 estimate(s) affecting the City of Huntington Beach's financial statements was (were):

- Judgements involving the estimated useful lives and depreciation methodology used for capital assets, including certain infrastructure
- Judgements as to which City capital projects should be capitalized and depreciated in the government-wide financial statements and proprietary funds
- Judgements relating to the collectability of accounts and notes receivable
- Estimated Other Post Employment Benefit obligations
- Judgements with respect to recording claims payable and remediation obligations
- Estimated Net Pension liabilities

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. The following immaterial misstatements detected as a result of audit procedures were not corrected by management: reporting of certain investments at fair market value, deposits payable that should be reported as revenues, understatement of interest revenue, understatement of unbilled receivables, and understatement of claims payable. 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, 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 December 16, 2020.

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 of Huntington Beach'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 of Huntington Beach'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 funding progress, schedule of changes in net pension liability and related ratios, schedule of pension contributions, schedule of money-weighted rate of return, schedule of changes in net OPEB liability and related ratios and schedule of OPEB contributions*, 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 supplementary information, 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 *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 the City Council and management of the City of Huntington Beach and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Davis Fan" followed by a stylized flourish.

Irvine, California
December 16, 2020

**Independent Accountants' Report on Agreed-Upon Procedures
Applied to Appropriations Limit Worksheets**

City Council
City of Huntington Beach
Huntington Beach, California

We have performed the procedures enumerated below, which were agreed to by the City of Huntington Beach, California and the League of California Cities (as presented in the League publication entitled *Article XIII B Appropriations Limitation Uniform Guidelines*) on the Appropriations Limit Worksheets for the year ended June 30, 2020. The City of Huntington Beach's management is responsible for the Appropriations Limit Worksheets. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and the results of those procedures were as follows:

1. We obtained the worksheets referred to above and compared the limit and annual adjustment factors included in those worksheets to the limit and annual adjustment factors that were adopted by resolution of the City Council. We also compared the population and inflation options included in the aforementioned worksheets to those that were selected by a recorded vote.

Results: No exceptions were noted as a result of our procedures.

2. We recalculated the mathematical computations reflected in the City worksheets.

Results: No exceptions were noted as a result of our procedures.

3. We compared the current year information used to determine the current year limit and found that it agreed to worksheets prepared by the City and to information provided by the State Department of Finance.

Results: No exceptions were noted as a result of our procedures.

4. We compared the amount of the prior year appropriations limit presented in the worksheets to the amount adopted by the City Council for the prior year.

Results: No exceptions were noted as a result of our procedures.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the worksheets referred to above. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. No procedures have been performed with respect to the determination of the appropriation limit for the base year, as defined by the League publication entitled *Article XIII B Appropriations Limitation Uniform Guidelines*.

This report is intended solely for the information and use of the City of Huntington Beach, California, and is not intended to be, and should not be, used by anyone other than the specified parties.

Irvine, California
December 16, 2020

**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of the Air Quality
Special Revenue Fund Performed
in Accordance with *Government Auditing Standards***

City Council
City of Huntington Beach
Huntington Beach, 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 *Government Auditing Standards* issued by the Comptroller General of the United States, Air Quality Management District Fund of the City of Huntington Beach, California, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Air Quality Management District Fund of the City of Huntington Beach's basic financial statements, and have issued our report thereon dated December 16, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Air Quality Management District Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Air Quality Management District Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Air Quality Management District Fund's internal control.

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 entity'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Air Quality Management District Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including applicable provisions of Assembly Bill 2766 (AB2766) Chapter 1705 (Health and Safety Code Sections 44220 through 44247), 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*.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Davis Fan" followed by a stylized flourish.

Irvine, California
December 16, 2020