

Honorable Mayor and City Council
City of Huntington Beach
Huntington Beach, California

We have audited the financial statements of the City of Huntington Beach (City) as of and for the year ended June 30, 2022, and have issued our report thereon dated December 21, 2022. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated June 6, 2022, our responsibility, as described by professional standards, is to form and express an opinion 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, our firm, and our network firms have complied with all relevant ethical requirements regarding independence under the American Institute of Certified Public Accountants ("AICPA") independence standards, contained in the Code of Professional Conduct.

Significant Risks Identified

We have identified the following significant risks:

- Implementation of GASB Statement No. 87 Leases
- Compliance with Federal grant requirements

Qualitative Aspects of the Entity'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. As described in Note 14 to the financial statements, the City changed accounting policies related to leases by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 87, Leases, in the fiscal year 2022. 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:

- Judgments involving the estimated useful lives and depreciation methodology used for capital assets, including certain infrastructure. We evaluated management's judgments for reasonableness.
- Judgments as to which City capital projects should be capitalized and depreciated in the government-wide financial statements and proprietary funds. We evaluated management's judgments for reasonableness.
- Judgments relating to the collectability of accounts and notes receivable. We evaluated management's judgments for reasonableness.
- Judgments with respect to recording claims payable and remediation obligations. We evaluated management's judgments for reasonableness.
- Judgments involving calculation of the pension liability. We evaluated the actuarial valuation report supporting the calculations.
- Judgments involving the calculation of the other post-employment benefit (OPEB) liability. We evaluated the actuarial valuation report supporting the calculations.

We evaluated the key factors and assumptions used to develop the estimates and determined that it is reasonable in relation to the 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 were:

- The disclosure of pensions in note 6 to the financial statements.
- The disclosure of OPEB in note 8 to the financial statements.

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. The following summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate to the financial statements taken as a whole.

- Recording of certain lease receivables and related deferred inflows due to the implementation of GASB Statement No. 87, leases

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.

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 certain written representations from management, which are included in the attached letter dated December 21, 2022.

Management's 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 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 reports, 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 the 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.

A handwritten signature in blue ink that reads "Davis Farn LLP".

Irvine, California
December 21, 2022

**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, the Air Quality Special Revenue Fund of the City of Huntington Beach, California, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Air Quality Special Revenue Fund of the City of Huntington Beach's basic financial statements, and have issued our report thereon dated December 21, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Air Quality Special Revenue Fund's internal control over financial reporting (internal control) as a basis for designing 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 Special Revenue Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Air Quality Special Revenue 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 Special Revenue 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 financial statements. 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 Farr LLP". The signature is written in a cursive, flowing style.

Irvine, California
December 21, 2022

INDEPENDENT ACCOUNTANT'S REPORT

The Honorable Mayor and City Council
City of Huntington Beach, California

We have performed the procedures enumerated below on the City of Huntington Beach, California (City) appropriations limit worksheets for compliance with the requirements of Section 1.5 of Article XIII B of the California Constitution for the year ended June 30, 2022. The City is responsible for compliance with Section 1.5 of Article XIII B of the California Constitution.

The City has agreed to and acknowledged that these procedures are appropriate to meet the intended purpose of evaluating compliance with the requirements of Section 1.5 of Article XIII B of the California Constitution and the League of California Cities publication entitled *Article XIII B Appropriations Limitation Uniform Guidelines* for the year ended June 30, 2022. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures and the associated findings are 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's 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 agreed it 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.

The Honorable Mayor and City Council
City of Huntington Beach, California
Page Two

We were engaged by the City to perform this agreed-upon procedures engagement and conducted our engagement in accordance with 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*.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

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



Irvine, California
December 21, 2022