

The Honorable Mayor and City Council
City of Costa Mesa, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Costa Mesa ("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 and, if applicable, *Government Auditing Standards* and OMB 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 October 14, 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 City implemented Governmental Accounting Standards Board (GASB) Statement No. 84 related to Fiduciary Funds. The cumulative effect of the implementation of GASB Statement 84 as of the beginning of the year is described further in Note 20 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)*. Additionally, as described in Note 1 to the financial statements, the City changed accounting policies related to the availability period for governmental fund grant revenues. 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:

Management's estimate of amounts recorded as claims and liabilities is based on management's reliance on a third-party claims administrator. We evaluated the key factors and assumptions used to develop the amounts by the third-party claims administrator and determined that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of transactions related to net pension and OPEB liabilities based on actuarial information. We evaluated the key factors and assumptions used to develop the amounts by the actuary and determined that it is reasonable in relation to the financial statements taken as a whole.

There were no particularly sensitive note disclosures affecting 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 such misstatements. Material audit adjustments include recording custodial fund activity for GASB 84 implementation.

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 17, 2021.

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 the *management's discussion and analysis, the schedule of proportionate share of the net pension liability and the schedule of contributions - fire safety plans, the schedule of changes in the net pension liability and related ratios and the schedule of contributions - miscellaneous, police safety, the schedule of changes in OPEB liability and related ratios, and budgetary comparison schedules* information 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 the *combining and individual non-major fund financial statements* and the *budgetary comparison schedules*, 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 and statistical sections, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the use of City Council and management of the City of Costa Mesa 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 17, 2021