



January 31, 2022

To the Finance Committee
City of Yorba Linda, 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 City of Yorba Linda, California (City) as of and for the year ended June 30, 2021, and have issued our report thereon dated January 31, 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 29, 2021, 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 in our letter dated June 29, 2021.

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.

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 1.e to the financial statements, the City implemented Governmental Accounting Standard Board (GASB) Statement No. 84, *Fiduciary Activities*, Statement No. 90, *Majority Equity Interests – an amendment of GASB Statement No. 14 and No. 61*, Statement No. 97, *Certain Component Unit Criteria*, and *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84*, and a supersession of GASB Statement No. 32 for the year ended June 30, 2021. There is no significant impact to the City's basic financial statements due to the implementation of GASB Nos. 90 and 97. As a result of implementing GASB No. 84, the City presented custodial funds to account for assets held by the City as an agent for others, including special deposits. The City also early implemented GASB Statement No. 98, *The Annual Comprehensive Financial Report* for the year ended June 30, 2021, as described in Note 1(e). There is no significant impact to the City's basic financial statements due to the implementation of this Statement other than to change the name and acronym of the document. There have been no changes in other significant accounting policies or their application during for the year ended June 30, 2021. 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 estimates of developer loan receivables under Owner Participation Agreements (OPA) are based on historical data and the terms of each respective OPA.
- Valuations of actuarially determined contributions, deferred outflows of resources, deferred inflows of resources, and net OPEB liability and net OPEB expense for the City are based on actuarial calculations, which incorporate actuarial methods and assumptions adopted by the City Council.
- Valuations of actuarially determined contributions, deferred outflows of resources, deferred inflows of resources, and net pension liability and pension expense for the City's Miscellaneous Plan are based on actuarial calculations performed by the California Public Employees Retirement System (CalPERS).

- Useful lives for depreciable capital assets and infrastructure were determined by management based on the nature of the assets. The City uses the straight-line method of depreciation for all depreciable capital assets, excluding the street pavement system within the City's infrastructure assets. The City also utilizes the modified approach for reporting the street pavement system that is recorded within the City's infrastructure assets, which includes estimates related to the conditional level of the assets.
- Management's estimates of the fair value of investments, except for money market mutual funds, the Local Agency Investment Fund (LAIF) and the California Asset Management Program (CAMP), are based on quoted market prices, bid evaluation, or matrix pricing techniques. Money market mutual funds are valued at net asset value (NAV) based on amortized cost. The City's investment in LAIF and CAMP are reported based upon the application of a fair value factor applied to each one dollar share invested.

We evaluated the key factors and assumptions used to develop these accounting estimates and determined that 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 long-term receivables disclosures in Note 5 to the basic financial statements related to the Owner Participation Agreements with the City.
- The pension plan disclosures in Note 9 to the basic financial statements related to the pension plan's net pension liability, related deferred outflows and inflows of resources, and pension expense.
- The OPEB disclosures in Note 10 to the basic financial statements related to the OPEB plan's net OPEB liability for retiree healthcare benefits, related deferred outflows and inflows of resources, and OPEB expense.
- The commitments and contingencies that will impact future resources of the City as disclosed in Note 12 to the basic financial statements.
- The impact of COVID-19 pandemic to the City as disclosed in Note 14 to the basic financial statements.

Difficulties Encountered During the Audit

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

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards 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 posted all adjustments identified during the audit. In addition, there were no uncorrected misstatements noted as a result of the audit procedures.

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 dated January 31, 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, 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 in Documents Containing Audited Financial Statements

Pursuant to professional standards, our responsibility as auditors for other information in documents (i.e., bond official statements) containing the City's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, if engaged by the City, in accordance with such professional standards we would read the information and consider whether such information, or the manner of its presentation, was materially inconsistent with its presentation of the basic financial statements.

We applied certain limited procedures to the management's discussion and analysis, budgetary comparison information, Infrastructure Assets Reported Using the Modified Approach, Schedule of Changes in the Net Pension Liability and Related Ratios – Last 10 Years, Schedule of Pension Contributions – Last 10 Years, Schedule of Changes in the Net OPEB Liability and Related Ratios – Last 10 Years, and Schedule of OPEB Contributions – Last 10 Years, which are required supplementary information (RSI) that supplement 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 budgetary comparison schedule – Capital Improvements Capital Projects Fund and the combining and individual non-major fund financial statements and 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 introduction section and 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.

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.

Restriction on Use

This report is intended solely for the information and use of the Finance Committee, 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.

Very truly yours,

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style.

Irvine, California