



January 30, 2020

To the Members of the City Council
City of Brea, California

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Brea, California (City) as of and for the year ended June 30, 2019, and have issued our report thereon dated January 30, 2020. We also met with the City's Finance committee on August 13, 2019. We are currently performing the audit of the City's federal awards programs (Single Audit) and anticipate issuing our reports thereon prior to March 31, 2020. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards, *Government Auditing Standards*, and our Compliance Audit under the Uniform Guidance

As communicated in our letter dated August 6, 2019, 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 and to express an opinion on whether the City complied with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the City's major federal programs. . Our audit of the financial statements and major program compliance 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.

Our responsibility, as prescribed by professional standards as it relates to the City's major federal program compliance, is to express an opinion on the compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. An audit of major program compliance includes consideration of internal control over compliance with the types of compliance requirements referred to above as a basis for designing audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal controls over compliance. Accordingly, as a part of our major program compliance audit, we considered internal control over compliance for these purposes and not to provide any assurance on the effectiveness of the City's internal control over compliance.

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 other firms utilized in the engagement, if applicable, 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. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the fiscal year. 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:

- The net pension liability and related deferred inflows of resources and deferred outflows of resources and disclosures are based on actuarial valuations.
- The total other post-employment benefits and related deferred inflows of resources and deferred outflows of resources are based on actuarial valuations.

We evaluated the key factors and assumptions used to develop the estimates and determined that they were reasonable in relation to the basic financial statements taken as a whole.

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 City's financial statements relate to:

As disclosed in note 4 to the financial statements, the City has related party activities with the California Domestic Water Company (CDWC), including holding water rights and equity in CDWC and purchasing water from CDWC.

As disclosed in note 9 to the financial statements, the City's disclosure of the defined benefit pension plans, net pension liability and related deferred inflows of resources and deferred outflows of resources are particularly sensitive. As disclosed in note 9, a 1% increase or decrease in the discount rate has a material effect on the City's net pension liability.

As disclosed in note 10 to the financial statements, the City's disclosure of the other post-employment benefit (OPEB) plan, total OPEB liability and related deferred inflows of resources and deferred outflows of resources are particularly sensitive. As disclosed in note 10, a 1% increase or decrease in the discount rate or healthcare cost trend rate has a material effect on the City's OPEB liability.

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 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.

The following misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management:

Refuse franchise fees in the amount of \$54,173 were adjusted in the General Fund and the Sanitation Fund.

One month of allocation of General Fund overhead, totaling \$109,483 that had not been charged, was recorded to various funds.

There were no uncorrected misstatements reported.

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 management representation letter dated January 30, 2020.

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.

This report is intended solely for the information and use of the City Council and management of the City of Brea and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Laguna Hills, California