



January 6, 2026

To the Honorable Mayor and Members
of the City Council of the City of San Mateo
San Mateo, 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 San Mateo, California (the “City”) for the year ended June 30, 2025. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *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 May 1, 2025. Professional standards also require that we communicate the following information related to our audit.

Qualitative Aspects of Accounting Practices

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the basic financial statements. Other than those standards described below that were implement in the fiscal year ended June 30, 2024, no new accounting policies were adopted nor was the application of existing policies changed:

New Accounting Standards

GASB Statement No. 101 – In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. Implementation of this Statement results in a restatement of the beginning net position as of July 1, 2024.

GASB Statement No. 102 – In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints which may limit a government's ability to acquire resources or control spending. Application of this statement did not have a significant effect on the City's financial reporting for the fiscal year ended June 30, 2025.

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

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 the investment fair market value is based on information provided by the State of California for the City's investment in Local Agency Investment Fund, provided by the County of San Mateo for the City investment in San Mateo County Investment Pool, and based on market price provided by Chandler Asset Management, the trustee for investments in Medium Term Corporate Notes, U.S. Government Treasury and Agencies Bonds, Negotiable Certificates of Deposits, Asset-Backed Securities, Collateralized Mortgage Obligations, and Municipal Bonds.
- Management's estimate of the depreciation on capital assets is based on the industry standard and past experience on actual useful life of the asset groups.
- Management's estimate for the "more likely than not" amount of sick leave to be accrued in the compensated absences liability is based on historical "days used" data determined by taking a sample of historic sick leave usage patterns.
- Management's estimate of the net OPEB and the net pension liabilities is based on the actuarial valuations for each Plan of total pension/OPEB liability and is based on audited financial statements on fiduciary net position for the CalPERS plans. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

As part of our audit, we evaluated the key factors and assumptions used to develop the accounting estimates described above and in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- Note 1 – Summary of Significant Accounting Policies
- Note 11 – Pension Plans
- Note 12 – Other Postemployment Benefits
- Note 15 – Other Required Disclosures
- Note 19 – Adjustments and Restatements of Beginning Balances
- Note 20 – Commitments and Contingencies

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. There were no misstatements identified during our audit that management had to correct and none of the misstatements detected as a result of audit procedures 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 communicated to us in the management representation letter dated January 6, 2026.

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 governmental unit'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.

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 governmental unit'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, Budgetary Comparison Schedules, Schedules of Changes in Net Pension Liability and Related Ratios, Schedules of Contributions – Pension, Schedule of Changes in Net OPEB Liability and Related Ratios, and Schedule of Contributions – OPEB, 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 Combining and Individual Nonmajor 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 the 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.

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San Mateo, California
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Restriction on Use

This information is intended solely for the 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.

Very truly yours,

The Pen Group, LLP

Walnut Creek, California