

November 29, 2021

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, which collectively comprise the City's basic financial statements ("financial statements") of the City of San Mateo ("City") as of and for the year ended June 30, 2021, and have issued our report thereon dated November 29, 2021. In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2021, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Professional standards require that we provide you with the following information related to our audit and information about our responsibilities under generally accepted auditing standards, *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 engagement letter with the City dated August 30, 2021. Professional standards also require that we communicate to you 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, 2021, no new accounting policies were adopted nor was the application of existing policies changed:

GASB Statement No. 98

In October 2021, GASB issued Statement No. 98, *The Annual Comprehensive Financial Report*, to establish the term *annual comprehensive financial report* and its acronym *ACFR*. That new term and acronym replace instances of *comprehensive annual financial report* and its acronym in generally accepted accounting principles for state and local governments. Application of this statement did not have a material effect on the City's financial statements for the fiscal year ending June 30, 2021.

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:

Investments are reported using GASB Statement No. 72, *Fair Value Measurement and Application*, this statement defines fair value, establishes a framework for measuring fair value and establishes disclosures about fair value measurement. Investments, unless otherwise specified, are recorded at fair value in the Statements of Net Position, and are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Levels of inputs are as follows:

- Level 1 – Inputs are unadjusted, quoted prices for identical assets and liabilities in active markets at the measurement date.
 - Level 2 – Inputs, other than quoted prices included in Level 1, that are observable for the assets or liabilities through corroboration with market data at the measurement date.
 - Level 3 – Unobservable inputs that reflect management’s best estimate of what market participants would use in pricing the assets or liabilities at the measurement date.
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- 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 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 10 – Pension Plans
- Note 11 – Other Postemployment Benefits
- Note 17 – Property held for Investment - Related Party Transaction
- Note 18 – Contingencies and Commitments
- Note 19 – Subsequent Events

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 November 29, 2021.

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 Information in Documents Containing Audited Financial Statements

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. 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.

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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 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 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 PwC Group, LLP

Walnut Creek, California