

**City of  
Foster City and Estero  
Municipal  
Improvement District**

Foster City, California

*Auditor's Communication with  
Those Charged with Governance*

*For the year ended June 30, 2023*





December 4, 2023

To the Honorable Mayor and Members of the City Council of the City of Foster City  
and the Board of Directors of the Estero Municipal Improvement District  
Foster City, California

We have audited the financial statements of the City of Foster City and the Estero Municipal Improvement District (City/District) as of and for the year ended June 30, 2023, and have issued our report thereon dated December 4, 2023. 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 April 11, 2023, 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. 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/District 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.

We have provided our findings regarding significant deficiencies, and other matters noted during our audit in a separate letter to you dated December 4, 2023.

### **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 our network firms have complied with all relevant ethical requirements regarding independence.

### **Significant Risks Identified**

We have identified the following significant risks:

- *Risk of Management Override of Internal Controls* – A risk of management override of internal controls exists at any entity where management can change or decide not to perform that entity’s internal controls.
- *Revenue Recognition Risk* – Errors in revenue recognition can affect bond covenant ratios and the net position of the City/District.

### **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/District 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 year ended June 30, 2023. 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 capital asset depreciation and useful life, pension plan and other post-employment benefits (OPEB) plan assumptions.

Management’s estimate of capital assets depreciation and useful life, and pension and OPEB plan assumptions are based on historical useful lives of such assets, and actuarial assumptions,

respectively. We evaluated the key factors and assumptions used to develop the estimate of capital assets depreciation and useful life, and pension and OPEB plan assumptions 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 most sensitive disclosures affecting the City/District's financial statements relate to:

- Summary of Significant Accounting Policies
- Cash and Investments
- Long-term Debt
- Capital Assets
- Employee Retirement Plans
- Other Post-Employment Benefits
- Commitments and Contingencies
- Prior Period Adjustments

#### **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 also 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. The attached schedule summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The following material misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management:

- To reverse deferred inflows of resources (unavailable revenues) relating to loans receivable – principal portion and report it as part of the fund balance:

To the Honorable Mayor and Members of the City Council of the City of Foster City  
and the Board of Directors of the Estero Municipal Improvement District  
Foster City, California  
Page 4

- To adjust net pension liability and related accounts because of incorporating CalPERS's proportionate share relating to the Estero Municipal Improvement District

### **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/District'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 attached letter dated December 4, 2023.

### **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/District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, 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/District's auditors.

### **Required Supplementary Information**

We applied certain limited procedures to the 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.

### **Supplementary Information**

We were engaged to report on the supplementary information 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

To the Honorable Mayor and Members of the City Council of the City of Foster City  
and the Board of Directors of the Estero Municipal Improvement District  
Foster City, California  
Page 5

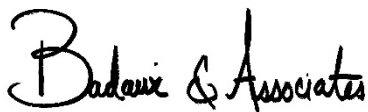
reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

### **Other Information Included in the Annual Comprehensive financial Reports**

Pursuant to professional standards, our responsibility as auditors for the introductory and the statistical sections, whether financial or nonfinancial, included in the City/District's annual comprehensive financial report, does not extend beyond the information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, in accordance with such standards, we have read the information and considered whether such information, or the manner of its presentation, was materially inconsistent with its presentation in the financial statements.

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.

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

A handwritten signature in black ink that reads "Badawi & Associates". The signature is written in a cursive, flowing style.

Badawi & Associates, CPAs  
Berkeley, California  
December 4, 2023

To the Honorable Mayor and Members of the City Council of the City of Foster City  
 and the Board of Directors of the Estero Municipal Improvement District  
 Foster City, California  
 Page 6

**Uncorrected Misstatements**

Account	Description	W/P Ref	Debit	Credit
<b>1</b>	<i>To record Prior period adjustment for 2nd trunch of ARPA revenues which should have been recognized as receivable and revenues in FY2022 financials</i>			
General Fund	Intergovernmental Receivable - ARPA		4,054,920.00	
General Fund	Fund Balance			4,054,920.00
<b>2</b>	<i>To correct ARPA grant funds received on July 2022, which should have been recorded as a reduction to receivables, but was was recorded as FY2023 revenues</i>			
General Fund	ARPA GRANT-COVID19 - Intergovernmental revenues		4,054,920.00	
General fund	Intergovernmental Receivable - ARPA			4,054,920.00