April 28, 2023

To the City Council and Management of the
City of Monterey
Monterey, California

We have audited the financial statements of City of Monterey (the “City”) as of and for the year ended June 30, 2022, and have issued our report thereon dated April 28, 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 under Generally Accepted Auditing Standards and Government Auditing Standards

As communicated in our letter dated October 28, 2022, 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 its 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.

We have provided our comments regarding internal controls during our audit in our Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards dated April 28, 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 other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.
Significant Risks Identified

As stated in our auditor’s report, professional standards require us to design our audit to provide reasonable assurance that the financial statements are free of material misstatement whether caused by fraud or error. In designing our audit procedures, professional standards require us to evaluate the financial statements and assess the risk that a material misstatement could occur. Areas that are potentially more susceptible to misstatements, and thereby require special audit considerations, are designated as “significant risks”. We have identified the following as significant risks.

- Management Override of Controls – professional standards require auditors to address the possibility of management overriding controls. Accordingly, as part of our normal audit procedures, we identified as a significant risk that management of the organization may have the ability to override controls that the organization has implemented.
- Improper Revenue Recognition – professional standards require auditors to presume that revenue recognition is a risk.

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. The City adopted the provision of GASB Statement No. 87, Leases. 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 related to the City Pension, Other Postemployment Benefits (OPEB), lease accounting discount rates and claims liabilities.

Management’s estimate of the City Pension, OPEB and insurance liabilities is based on actuarial estimated performed by management specialists. Management’s estimate of the lease accounting discount rates is based the Treasury SLGS rates over the period of lease agreements with adjustment for the City’s risk profile.

We evaluated the key factors and assumptions used to develop the management estimates and determined that they are 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 the City’s financial statements relate to:
• Note 1 summarizes the City’s accounting policies and describes significant changes in accounting policies due to the implementation of new accounting standards about leases. The effect of the restatement is further described at Note 15.

• Note 8 describes the valuation of the City’s net pension liability and related deferred outflows and inflows of resources. Such amounts are sensitive to the underlying actuarial assumptions used including, but not limited to, the investment rate of return and discount rate. As disclosed, a one percent increase or decrease in the discount rate has a material effect on the City’s net pension liability.

• Note 9 describes the City’s postemployment benefits liability and related deferred outflows and inflows of resources are sensitive to the underlying actuarial assumptions used including, but not limited to, the discount rate and healthcare cost trend rate. As disclosed, a one percent increase or decrease in the discount rate or the healthcare cost trend rate has a material effect on the City’s net post-employment benefits 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. 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.

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

Certain revenues reported within the Presidio of Monterey Public Work fund in the amount of $11,130,750 did not meet the 60 availability criteria and therefore an adjustment was necessary to correct the grant revenues reported in that fund by reducing those revenues and increasing the deferred inflows of resources related to unavailable revenue by $11,130,750.

**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 financial statements or the auditor’s report. No such disagreements arose during the course of the audit April 28, 2023.
Circumstances that Affect the Form and Content of the Auditor’s Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor’s report. The following emphasis of matter was included in our report:

**Adoption of New Accounting Standard**

As discussed in Note 15 to the financial statements, the City has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 87, *Leases*, for the year ended June 30, 2022. Accordingly, a restatement has been made to the governmental activities and business-type activities and the Marina, Parking and Cemetery funds’ net position as of July 1, 2021, to restate beginning net position and a restatement as of July 1, 2021, to the fund balances in the General Fund, the Community Development Block Grant Fund, the Tidelands Fund and the State/Federal Grants fund to restate beginning net position. Our opinions are not modified with respect to this matter.

**Correction of Errors**

As discussed in Note 15 to the financial statements, adjustments to the beginning balance of net position and fund balance were made by management for the correction of errors in the previously issued financial statements.

**Representations Requested from Management**

We have requested certain written representations from management which are included in the management representation letter dated April 28, 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, 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 conditions affecting the entity, and operating 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 Included in Annual Reports**

Pursuant to professional standards, our responsibility as auditors for other information, whether financial or nonfinancial, included in the City’s annual reports, 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, in accordance with such standards, we have read the other information such as the introductory section and the statistical section and considered whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.
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.

**Existence of a Material Misstatement that Affects the Financial Statements of a Prior Period in Which There Was a Predecessor Auditor**

We have identified the existence of a material misstatement that affects the prior period financial statements on which the predecessor auditor had previously reported without modification.

Accounts receivables and revenues pertaining to the State and Federal Grant fund were incorrectly recorded, resulting in an overstatement of fund balance in the governmental balance sheet totaling $689,503 at June 30, 2021. As a result, the beginning fund balance of State and Federal Grant fund was restated as of June 30, 2022.

**Group Audits**

The financial statements include the financial statements of City of Monterey Joint Powers Financing Authority (Authority). For the purposes of our audit, we consider the Authority to be a significant component of the consolidated financial statements; however, we do not consider the Authority to be a significant component of the financial statements. Consistent with the audit of the financial statements as a whole, our audit included obtaining an understanding of the Authority and their environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements of the Authority and completion of further audit procedures.

This report is intended solely for the information and 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.

Menlo Park, California